$4.25

CURRENT HISTORY

A WORLD AFFAIRS JOURNAL FEBRUARY, 1991

South America

02
74470 75307 0

Current History

FOUNDED IN 1914

FEBRUARY, 1991
VOLUME 90 NO. 553

Coming Next Month

Mexico and Central America

March, 1991

Our March issue surveys Mexico, the countries of Central America and the Caribbean, including an analysis of Cuba under its long-time leader Fidel Castro—one of the last remaining Communist stalwarts—and of Panama after the departure of General Manuel Noriega. Topics include:

U.S. Policy in Central America
by Cynthia Arnson, Americas Watch

Cuba
by Gillian Gunn, Carnegie Endowment for International Peace

Mexico
by George W. Grayson, College of William and Mary

Panama
by Steve C. Ropp, University of Wyoming

Guatemala
by Richard L. Millett, Southern Illinois University at Edwardsville

The Caribbean
by Aaron Segal, University of Texas at El Paso

Nicaragua
by Jennifer L. McCoy, Georgia State University

El Salvador
by Enrique A. Baloyra, University of Miami at Coral Gables

$4.25 a copy • $29.00 a year
Canada $33.50 a year • Foreign $33.50 a year
Please see back cover for quantity purchase rates.

NO ADVERTISING

Current History (ISSN-0011-3530) is published monthly (except June, July and August) for $29.00 per year by Current History, Inc., 4225 Main Street, Philadelphia, Pa. 19127. Second class postage paid at Phila., Pa., and additional mailing offices. Postmaster: send address changes to *Current History,* 4225 Main Street, Philadelphia, Pa. 19127. Indexed in *The Reader's Guide to Periodical Literature, The Abridged Reader's Guide, Book Review Index (BRI), ABC POL SCI, PAIS, SSCI* and *America: History and Life.* Indexed on-line by DIALOG, BRS and Information Access Magazine Index. Microfilm: University Microfilms, Ann Arbor, Mich. No responsibility is assumed for the return of unsolicited manuscripts.

Current History

FEBRUARY, 1991 VOL. 90, NO. 553

As they enter the 1990's, the countries of South America face three continuing problems: increased production of illicit drugs; mounting foreign debt; and political instability. Our introductory article discusses the policies of the United States toward South America: "With the exception of the 'Enterprise for the Americas' initiative, which is so far only a point of light on the horizon, the Bush administration has taken little advantage of the tremendous possibilities created by the end of the cold war and the beginning of an era in which there is no enemy to threaten the United States from Latin America."

The United States and South America: Beyond the Monroe Doctrine

BY WAYNE S. SMITH
Adjunct Professor of Latin American Studies, School of Advanced International Studies, Johns Hopkins University

We live in a new world. The cold war is over, the Berlin Wall is down, and Germany has been reunited. The Soviet Union has given up on world revolution and says it will conduct its foreign policy within the charter of the United Nations (UN). Never before in this century has the world seen such hopeful change—change whose implications for United States policies and attitudes toward Latin America go beyond this century and beyond the cold war.

The most basic United States attitudes toward Latin America were formed not in 1945, but almost 200 years ago. United States interventionism did not begin with the cold war; neither did it end with it, as evidenced by the December, 1989, invasion of Panama. In invading Panama, United States President George Bush was reverting to an earlier mindset. But what may have seemed appropriate in 1848 or 1927 is no longer appropriate in the vastly changed world of today. The United States must begin to rethink the assumptions on which its policy has rested since its beginnings.

One of these assumptions is based on what might be called the imperative for strategic denial.[1] Simply put, this imperative results from the historical observation by American leaders that while no other state in the Western Hemisphere was powerful enough to threaten the security of the United States, the very weakness of these states rendered them vulnerable to the control of outside powers. The United States had two great oceans between it and harm's way. Those who intended it harm, however, might overcome these natural barriers by positioning themselves to the south. Thus one of the earliest and most enduring United States objectives toward Latin America has been to keep all other powers out of this hemisphere.

Initially, of course, two European powers were already positioned to the south: Spain and Portugal. But Portugal was never viewed as a threat, and American leaders looked with equanimity on Spain's colonies below the Rio Grande. By the beginning of the nineteenth century, the Spanish empire was in decline and caused the United States little concern. Precisely for that reason, the United States made it clear on several occasions that it would not accept the transfer of Spanish territory to other European powers. This principle was behind the No-Transfer Resolution, which was passed by the United States Congress in 1811 with regard to the Floridas.[2] And it underlay Secretary of State Henry Clay's assertion in 1825 that "we could not consent to the occupation of those islands [Cuba and Puerto Rico] by any European power other than Spain under any contingency whatever."[3]

Clearly, it was the imperative for strategic denial that was also behind the greatest American shib-

[1]Lars Schoultz, "Inter-American Security: The Changing Perceptions of U.S. Policymakers," unpublished paper, April, 1990.

[2]See John Arthur Logan, *No Transfer; An American Securitv Principle* (New Haven, Conn.: Yale University Press, 1961).

[3]Quoted in Julius W. Pratt, *A History of U.S. Foreign Policy* (Englewood Cliffs, N.J.: Prentice Hall, 1955), p. 165.

boleth, the Monroe Doctrine. One need only to examine President James Monroe's words to see this. "We owe it, therefore, to candor and to the amicable relations existing between the United States and those powers," he warned the European states, "to declare that we should consider any attempt on their part to extend their system to any portion of this hemisphere as dangerous to our peace and safety."[4]

For the United States, the underlying concern was not the deleterious effects European encroachment might have on the Latin American states, but the threat such encroachment posed for the peace and safety of the United States. After 1803 this was especially true of the Caribbean basin. With the Louisiana Purchase and the acquisition of the immense territory that emptied through the Mississippi River into the Gulf of Mexico, the port of New Orleans became an American window to the rest of the world. The acquisition of California and the discovery of gold there in the mid-nineteenth century made the Central American isthmus equally valuable, since it provided a link between the two American seaboards. This role took on new dimensions with the construction of the Panama Canal. Control of the Caribbean basin, which guarded both the entrance to the Gulf of Mexico and access routes to Panama, thus became a vital objective for the United States.

HEMISPHERIC HEGEMONY

The second basic assumption that has shaped United States attitudes toward Latin America is that the United States must assert hegemony over this hemisphere. The conviction that the United States flag should fly from the Bering Straits to Tierra del Fuego or that United States control should be as effective as if its flag *were* flying came early in the nation's history. President John Quincy Adams predicted in 1819 that the United States would absorb all the territory to the south, and that this was as certain as the reality "that the Mississippi . . . flow[s] to the sea."[5] In 1895, Secretary of State Richard Olney declared openly that the United States "is practically sovereign on this continent, and its fiat is law upon the subjects to which it confines its interposition."[6]

Olney's statement and others like it exaggerated the degree of control actually enjoyed by the United States. The United States may never have been "practically sovereign" in this hemisphere (though it came close to being so in the Caribbean basin). More important, most Americans believed that the United States was sovereign.

United States leaders were determined to keep other powers out of Latin America, and believed they had a right to do so and, indeed, to arrange things in Latin America to suit their own purposes. What the countries of the region thought of this was of little consequence.

The actions the United States has taken on the basis of these two assumptions is too well known to require extensive cataloging here. Suffice it to recall that the United States took half of Mexico's territory in 1848, and a few years later, it gave unofficial sympathy and support and, finally, official recognition, to William Walker in his filibustering expeditions in Central America. As the twentieth century began, the United States took Puerto Rico and turned Cuba into a virtual United States protectorate. And it engineered Panama's separation from Colombia in the early 1900's and quickly acquired rights to build a canal across the newly created state.

In 1904, President Theodore Roosevelt enunciated what came to be called the Roosevelt corollary to the Monroe Doctrine. Since the United States would not permit outside powers to intervene to redress wrongdoing, it would have to become the regional policeman intervening in their stead. The United States wasted no time in assuming its new duties. In 1905 it intervened in the Dominican Republic to set up a customs collection operation to pay off that country's debt to several European creditors. It did the same thing in Nicaragua in 1912 and in Haiti in 1915.

By 1927, United States hegemony over Central America was so complete that Undersecretary of State Robert Olds could say, "Central America has always understood that governments we recognize and support stay in power, while those we do not recognize and support fail."[7]

Olds's statement was as direct an assertion of hegemony as one could hope for. Indeed, the very brazenness of statements like this and the extent to which they clashed with American idealism may have led to American retraction. During the presidency of Herbert Hoover, between 1929 and 1933, the United States Marines were pulled out of every country in Latin America except Haiti. President Hoover deplored United States interventionism and ordered a review of its historical underpinning. In response a memorandum written by Undersecretary of State J. Reuben Clark (and published in 1930) held that the Monroe Doctrine did not give the United States the right to intervene in Latin America. The Roosevelt corollary was abrogated.[8]

---

[4]Ibid., p. 169.
[5]Ibid., p. 164.
[6]Ibid., p. 348.
[7]Quoted in Wayne Smith, "Will the U.S. Again Send in the Marines?" *World Paper,* November, 1983.
[8]J. Reuben Clark, *Memorandum on the Monroe Doctrine* (Washington, D.C.: U.S. Government Printing Office, 1930).

The trend away from interventionism was given new impetus by the Roosevelt–Truman Good Neighbor policy. President Franklin D. Roosevelt stressed strong economic ties with Latin America, not political domination, and favored collective security over unilateral actions by the United States. At the 1933 Pan-American conference in Montevideo, Uruguay, Roosevelt pledged that the United States would hold to the principle of non-intervention. In 1934 the Marines left Haiti, and true to his word, Roosevelt did not send them again into any Latin American country. Nor did President Harry S. Truman.

In 1947 the Truman administration helped bring into being the so-called Rio Pact, a collective security arrangement that made defense of the Western Hemisphere the responsibility of all member states. This was followed in 1948 by the creation of the Organization of American States (OAS), which provided for the adjudication of disputes among members and for collective peacekeeping measures.

If outside powers still had to be kept out, it was clear that those who framed the OAS charter did not think this was the responsibility of the United States alone. Rather, the Rio Pact and the OAS charter made it the duty of all members. As American political leaders and scholars commented at the time, the Monroe Doctrine should thus have become a multilateral instrument.[9]

Initial indications that the United States was committed to the OAS charter were taken as encouraging signs that the United States no longer considered itself above the law—or, as some Latin Americans saw it, a law unto itself—in its relations with the countries to the south. Unfortunately, as the OAS charter was being drawn up, the cold war was also beginning in earnest. The whole concept of strategic denial took on a new and more passionate dimension as the United States became ferociously intent on excluding the Soviet Union from the region. It was so determined that it cast off any willingness to accept limitations on its own freedom of action.

HEGEMONY RESTORED

Secretary of State John Foster Dulles brought the cold war to Latin America with a vengeance. He quickly rammed through the OAS an anti-Communist resolution (declaring anything Communist to be incompatible with the inter-American system) and in 1954, engineered the overthrow of Guatemalan President Jacobo Arbenz's government, which Dulles considered "Communist."

Arbenz was in fact an army officer who did not have a single Communist Cabinet member in his government; only four Communist deputies served in the national legislature. None of this mattered to the United States. Arbenz had legalized the Communist party (which was also legal in the United States), had purchased a shipload of arms behind the Iron Curtain (only because the United States would not sell weapons to him) and, probably most damning, had begun a land reform program that would have affected property owned by the United States-based United Fruit Company. Dulles, whose law firm had represented United Fruit, went into action, and the Central Intelligence Agency (CIA) took care of Arbenz's "Communist regime."

The unilateral intervention in Guatemala began a pattern. The United States would work through the OAS when it thought the organization could achieve its security objectives. But if the other OAS members were reluctant to use force or if working through the OAS seemed inconvenient, the United States would act alone. As it had reacted in Guatemala in 1954, so it would react again in Cuba at the Bay of Pigs invasion in 1961; in Chile in 1973, when the CIA helped engineer the overthrow of President Salvador Allende Gossens; and in Nicaragua in the 1980's, with the contra war against the Sandinista government.

During the years of the cold war, strategic denial had only one focus: the Soviet Union. "The Russians are coming" was the cry, and all United States efforts were aimed at stopping them. These efforts were not all punitive. During the administration of President John F. Kennedy, for example, the Alliance for Progress aimed to deny Moscow targets of opportunity by assisting in the development of healthy societies and economies. It accomplished little, but its methods were honorable and its objectives were constructive.

That could not be said of United States actions in Guatemala in 1954 or at the Bay of Pigs in 1961. These interventions, however, were at least indirect. The United States did not intervene with its own troops in any Latin American country until 1965, when President Lyndon Baines Johnson sent troops to the Dominican Republic, allegedly to prevent a Communist takeover. No evidence was ever produced that a takeover was imminent. President Johnson seems to have reacted more to the cold war atmosphere—and to the fierce determination in the United States there there be no more Cubas—than to hard evidence and careful analysis.

President Johnson went through the motions of

[9]Ann Van Wynen Thomas and A.J. Thomas Jr., in *The Organization of American States* (Dallas, Tex.: Southern Methodist University Press, 1963), p. 356, conclude that "the Rio Treaty is the final step to date in the multilateralization of the Monroe Doctrine." See also Samuel Guy Inman's account of Republican Senator Arthur Vandenberg's conclusion that this would be the effect of the OAS, in *Inter-American Conferences, 1826-1954: History and Problems* (Washington, D.C.: University Press of Washington, 1965), pp. 221-222.

consulting with the OAS and obtaining its cooperation before the invasion. The façade was thin, but technically this was a multilateral intervention, not a unilateral one.

President Ronald Reagan also consulted with the OAS about the invasion of Grenada in 1983, though the façade was even thinner. In this case, the countries of the eastern Caribbean supposedly asked the United States for help and the British Governor General allegedly invited the United States to send troops. But it turned out that the Caribbean countries had been consulted after the United States decision to invade, and that the invitation from the Governor General had been "extended" two days after the troops were already ashore. Even British Prime Minister Margaret Thatcher, normally a strong supporter of President Reagan's actions, condemned the invasion, as did most other governments around the world. However, the Reagan administration's drummed-up international support and invitation to invade showed some concern for legal niceties and international public opinion.

The United States described each of these cases as East–West challenges in character, and said that each involved a threat to hemispheric security. But not all were East–West challenges. The 1954 coup in Guatemala certainly was not, nor was the invasion of the Dominican Republic in 1965. Only Cuba presented a threat to the security of the United States, to the Panama Canal or to nearby sea-lanes.[10]

THE CASE OF CUBA

Cuba, then, was the only case in which there was some menace to neighboring countries and in which the Soviet Union had positioned itself to threaten the security of the United States directly. The United States, apparently thinking it could deal with Cuban President Fidel Castro as easily as it had dealt with Arbenz, responded with the Bay of Pigs invasion. When that failed, it turned to efforts to contain and isolate Cuba.

The threat to United States security came with Soviet Prime Minister Nikita Khrushchev's decision to place missiles in Cuba, which led to the crisis of October, 1962, when the world came to the brink of war. The crisis was defused by the Kennedy–Khrushchev understanding, which both sides have respected. Under the terms of the understanding, the Soviet Union cannot reposition offensive weapons in Cuba. The understanding effectively eliminated any security threat to the United States from Cuba. Even so, the bitter global rivalry between the United States and the Soviet Union ensured that the alliance between Cuba and the Soviet Union continued to be of concern to the United States, which analyzed all Cuban initiatives and policies in terms of how they might advance the cause of the Soviet Union. Further, Cuba's presence in the cold war environment often caused the United States to overreact. The United States was almost pathologically determined that there would be "no more Cubas."

This did not justify the overreactions, which in most cases were counterproductive even to United States interests. But they were not inexplicable or totally lacking in rationale. As long as Cuba vowed to turn the Andes into the Sierra Maestra of Latin America, containment efforts made good sense. By the end of the 1960's, however, Castro had given up revolutionary tactics and was instead reaching out to governments he had once sworn to overthrow. By 1989, Cuba had relations with most Latin American countries, and the latter were even moving to bring Cuba back into the OAS, from which it had been expelled in 1962. Clearly, most nations no longer saw Cuba as a threat.

THE NEED FOR A NEW POLICY

With the end of the cold war, Soviet threats to United States security can be put to rest. Moscow has no intention of mounting such a threat, and Cuba, even if it wished to do so, lacks the capability.

After 200 years, the entire concept of strategic denial has become obsolete, and so too the rationale for the Monroe Doctrine. To the extent that there is further need for such a doctrine, there is no reason not to do what United States leaders intended in 1947 and 1948: transform the doctrine into a multilateral statement of intent guiding the collective security apparatus of the OAS.

The concerns that dictated that the United States treat the Caribbean as its own lake have also been overtaken by events. In the past the United States was preoccupied with keeping open the Gulf of Mexico and the approaches to the Panama Canal, but there are no longer any outside powers who would close them. Cuba, the only hemispheric state that might desire to close them, does not have the

(Continued on page 88)

[10]Nicaragua did not pose a security threat either. If the Soviet Union decided to place sophisticated weaponry of its own or provide Nicaragua with such weaponry, then such a threat might have developed there. But it never did; rather, the Soviet Union consistently gave assurances that it would not.

Wayne S. Smith served in the United States Foreign Service for 25 years. His postings included Moscow, Havana and Buenos Aires. He is the author of *The Closest of Enemies: A Personal and Diplomatic Account of U.S.-Cuban Relations Since 1957* (New York: W.W. Norton, 1987), and many other books and articles on Latin America and Soviet foreign policy.

"The first year of Chile's democracy has not been a honeymoon, but there has been a spirit of consensus that could still crumble if the lessons of a nearly 17-year dictatorship are lost in the pressures of the moment."

Democracy in Chile

BY ARTURO VALENZUELA,
Professor of Government, Georgetown University
and
PAMELA CONSTABLE,
Latin American Correspondent, Boston Globe

AFTER nearly 17 years of military rule under General Augusto Pinochet, Chile has returned to its 150-year tradition of elected civilian government. The inauguration of President Patricio Aylwin Azocar on March 11, 1990, after a decisive election victory over two conservative candidates in December, 1989, placed the highly respected leader of the centrist Christian Democratic party at the nation's helm.

The new government's priorities, formally outlined in Aylwin's May 21 address to the first session of the legislature, are to promote economic stability and growth while improving the conditions of poor and working class Chileans; to clarify the human rights abuses committed by the Pinochet regime; to democratize Chile's political institutions further; and to rejoin the international community.

There is good reason to be optimistic about Chile's transition. Its economy is on a sounder footing than any other country in the region. The long struggle against Pinochet helped forge a remarkably resilient alliance among the diverse political groups supporting the new President. The consolidation of democratic practices has also been bolstered by the strong showing of Chile's rightist parties; these parties received 44 percent of the vote in the presidential race and achieved significant congressional representation, which reduced their temptation to seek political support from the armed forces.

Yet the legislative power of the right is one of the many institutional legacies of authoritarian rule that constitute an obstacle to the consolidation of democracy. Since Aylwin's inauguration, the conservative opposition has stymied virtually all major administration initiatives, from labor reforms to a comprehensive package of laws that are aimed at restoring fairness to the legal system.

In public opinion polls, Aylwin and most of his Cabinet officers continue to enjoy broad popular support.[1] But there are growing signs of impatience from the groups that have staunchly supported Aylwin and his 17-party coalition. Alwyn cannot seek reelection and his transitional government has only four years to consolidate democratic rule before the struggle for succession undermines his coalition.

Unlike many other civilian leaders who have taken over from profligate or poorly managed Latin American military regimes, Aylwin inherited an economy that is widely hailed as a model for the region. Pinochet's aides crafted a strict program of free market policies and significantly reduced the size of the state, leaving the country with a balanced budget, large foreign reserves, a reduced external debt, a thriving export sector, and relatively low levels of inflation and unemployment.

ECONOMIC POLICIES

Despite lingering philosophical differences over social policies, Chilean leaders across the political spectrum have agreed to retain the economic policies initiated by the Pinochet regime. The disastrous experience of neighboring countries, which fell into inflationary spirals and economic stagnation, has added to the determination of Chile's new economic policymakers to redress social inequities without upsetting economic stability. To the relief of the business community, which harbored irrational fears of a full-fledged return to socialism under Aylwin, the government has continued to privatize state-owned enterprises, diversify exports and limit public spending.

The new government's latitude on economic matters, however, has been severely circumscribed by the outgoing government, which abandoned its economic orthodoxy and overstimulated the economy in a failed attempt to win the 1988 and 1989 elections. Sharp increases in the money supply

[1] Centro de Estudios Públicos, "Estudio Social y de Opinion Pública," *Documento de Trabajo* (Santiago), no. 136 (August, 1990), p. 45.

spurred a 13 percent rise in domestic demand in 1989, generating inflationary pressures by the end of the year.[2]

Finance Minister Alejandro Foxley considered the resulting 10 percent growth of the gross domestic product (GDP) unsustainable; he and his team were forced to break the "populist cycle" by raising interest rates and cutting government spending. This led to a significant decline in imports and domestic economic activity and a projected growth rate of less than 2 percent for 1990. In September, 1990, the government eased monetary policy to stimulate growth. But increases in oil prices resulting from Iraq's invasion of Kuwait in August, 1990, pushed inflation to 25 percent by the end of the year.

Chile's economy, however, has been buoyed by extraordinary increases in foreign investment and impressive growth in exports. In 1990, foreign investment was projected to exceed $1.2 billion, an all-time record for Chile and by far the best performance in Latin America. Overall, investment rates are expected to reach 22 percent of GDP, the highest rate in 25 years. Exports, which represent close to 30 percent of GDP, should continue to grow 20 percent per year. Confidence in the Chilean economy has also been reflected in the continued growth of the stock market and the strength of the Chilean peso.

While accepting the broad outlines of the Pinochet regime's economic model, Aylwin's center-left administration is committed to distributing wealth more equitably and redressing long-suppressed social grievances among poor and working class Chileans. The passage of a government-proposed tax reform law in June, 1990, with the concurrence of the rightist National Renovation party, was an important step in beginning to repay this "social debt." By increasing corporate and value-added taxes, the government obtained resources equivalent to 1.5 percent of GDP, allowing it to boost spending on social programs while avoiding a deficit. Between 1989 and 1991, expenditures on health, education and housing are expected to grow 20 percent in real terms, without putting public sector finances in the red.

The conservative business elite, which benefited handsomely from the Pinochet regime's economic policies, has shown a new willingness to compromise with labor leaders, who were severely repressed under military rule. On April 27, Manuel Feliú, the leader of Chile's most powerful business lobby, the Confederación de Produción Comercio, signed an unprecedented "framework pact" with Manuel Bustos, general secretary of the largest labor confederation, the Central Unitaria de Trabajadores. Nevertheless, the Aylwin government has been unable to overcome the opposition of conservative legislators to labor code reforms, which were a principal demand of the major unions during the recent electoral campaign.

POLITICAL IMPASSE

The Aylwin government's economic and social progress has not been duplicated in the political sphere, where it faces strong defiance from the civilian right and the armed forces. By the end of 1990, the government had made little headway in resolving the critical issues of clarifying human rights violations and cementing civilian authority over the military.

The impasse over these issues stems directly from the authoritarianism of the Pinochet years. In 1988, democratic opposition leaders gambled that they could defeat Pinochet at his own game and emerged victorious in the October 5 plebiscite that was designed to perpetuate his rule. Yet by entering the regime's playing field, the opposition accepted both its timetable for a transition to civilian rule and a constitutional framework designed to limit civilian authority.

The most vexing legacy of the Pinochet years is the undemocratic design of the legislature. Despite an electoral and districting system engineered to favor conservative candidates, Aylwin's coalition obtained an absolute majority in both houses of Congress. Because the 1980 constitution enabled the outgoing regime to name 9 of 47 senators, the right has a sufficient edge in the Senate to block any legislation proposed by the governing coalition.[3] Thus the government must always bargain with either the moderate National Renovation party or the more extreme, pro-Pinochet Democratic Independent Union. After years of calling politicians demagogues and wheeler-dealers, conservative leaders have proved to be skilled legislative negotiators and clever polemicists who focus their sights on the 1994 elections, although they have agreed that democracy itself should not be undermined.

One area where conservative opponents have successfully thwarted the government is on the issue of human rights. Between 1973 and 1978, more than 660 prisoners in military custody disappeared, thousands were tortured and hundreds were summarily executed or shot in alleged armed confrontations. In the years that followed, thousands more

[2]Economic data for this article are drawn primarily from United Nations, Economic Commission for Latin America, *Economic Panorama of Latin America* (Santiago, 1990).

[3]For a description of the regime's weighted voting system and the 1989 transition, see Pamela Constable and Arturo Valenzuela, "Chile's Return to Democracy," *Foreign Affairs,* vol. 68, no. 5 (Winter, 1989-1990), pp. 169-186.

were abused and some were killed by the security forces. Democratic leaders have long pledged to bring those responsible to justice, and polls suggest that a majority of Chileans support this course of action.[4]

The families of those killed, disappeared or imprisoned under Pinochet have been a more strident force for justice. These families, who receive support from both the Roman Catholic Church and leftist parties, have little real political power, but they represent a vociferous and visible reminder of a moral imperative that Chile's elected officials have pledged to fulfill.

In May, 1990, the justice minister proposed a package of laws that would permit the investigation of human rights cases, eliminate the death penalty, soften the harsh state security laws enacted by the military regime and remove most crimes committed by civilians from the jurisdiction of the military courts. But by the end of 1990, the legislation had been severely watered down by conservative congressional opponents, who succeeded in linking proposals for judicial reform to the controversial issue of "political prisoners."

At the time of Aylwin's inauguration, there were nearly 400 men and women in prison on charges or suspicion of "political" crimes, ranging from clandestine border crossing to assassination. The government pardoned 45 "prisoners of conscience" and held for trial those allegedly involved in violent attacks. But this differential treatment was condemned by the prisoners, many of whom were linked to armed revolutionary groups; they staged a hunger strike demanding freedom for all "prisoners of democracy."

Conservative politicians strongly opposed the release of these alleged terrorists and balked at supporting legislation that would lighten their punishment. Their arguments were bolstered by several violent attacks, including the March 21 attempted assassination of General Gustavo Leigh, a former air force commander and member of the ruling junta. Terrorist attacks from both the extreme right and the extreme left continued throughout 1990, including bank robberies, prison assaults and the bombing of a baseball game in November. The attacks heightened a climate of insecurity and dampened the euphoria that had greeted the return of democracy.

President Aylwin was determined to clarify past abuses and named a blue ribbon panel, the Commission on Truth and Reconciliation, to investigate past human rights violations. Headed by attorney Raúl Rettig, the commission was charged with taking testimony from victims and witnesses, preparing a report and recommending action.

Rightist parties refused to participate, arguing that the commission should also investigate government abuses and the climate of violence during the Socialist government of President Salvador Allende Gossens, who was overthrown and killed in the 1973 coup that ushered in the Pinochet era. But Aylwin, calling the unsolved atrocities of the military era "a still-open wound in the nation's soul," said that to pretend nothing had happened "would be to prolong a constant source of pain, divisions, hatred and violence."[5]

Under strict secrecy, the commission has taken testimony from hundreds of individuals, and had accepted more than 3,200 cases by August, 1990; its report is expected in early 1991. It is far from clear how the President will handle the report's potentially explosive contents. A 1978 amnesty law prevents the courts from investigating incidents before 1978, and the constitution bars the government from holding a referendum on the question of amnesty. The only alternative Aylwin may have is to acknowledge formally that crimes were committed and to seek compensation for the victims' families.

In trying to balance the demands for justice and reconciliation, the government is also hamstrung by another legacy of authoritarian rule: a conservative, overly cautious judiciary. During Pinochet's tenure, the Supreme Court accepted the regime's legitimacy without question and refused to hold the military accountable for repressive acts. During his last year in office, Pinochet offered generous retirement bonuses to elderly members, and was able to name nine new justices to life terms. This virtually guaranteed that the court would resist judicial reforms and efforts to reopen human rights cases— as its members clearly demonstrated when confronted with the first major challenge to the military junta's amnesty law.

In August, 1990, the Supreme Court unanimously upheld the 1978 statute protecting members of the security forces from prosecution for abuses. The lawyers who challenged the law on behalf of 60 missing prisoners argued that to have closed the cases without investigation violated basic rights guaranteed in the 1980 constitution. The court ruled that because the amnesty law predated the constitution, the court could not alter it. The court's justices also rejected the contention that the law violated the Geneva Conventions by noting that no "state of internal armed conflict" had existed in Chile.[6] This reasoning contradicted previous rulings made by the court, which often excused repres-

---

[4]Centro de Estudios Públicos, "Estudio Social," pp. 49, 67.

[5]República de Chile, Ministerio Secretaria General de la Presidencia, "Discursos del Presidente de la República don Patricio Aylwin Azocar" (Santiago, 1990).

[6]*El Mercurio* (Santiago), international edition, August 23–29, 1990, p. 5.

sive actions by military and secret police officials on the grounds that a state of "internal war" had existed after the coup.

The most serious obstacle to establishing justice and consolidating democracy is the continued strength and autonomy of the armed forces. Under Pinochet, the army virtually became a state within a state, and the dictator made sure that his successors would have little control over it. The military junta revoked the President's traditional right to name and remove the commanders of the army, navy, air force and national police; shielded the military budget from legislative cutbacks; and reserved 10 percent of Chile's annual income from the sale of copper—the major export—for the armed forces.

Before leaving office, Pinochet also ordered the incorporation of the entire intelligence apparatus into the army, where its agents were shielded from civilian oversight and retained the capacity to engage in covert actions. It is widely believed that many recent terrorist attacks blamed on extreme leftists have been perpetrated by former or current members of the secret police who have infiltrated the leftist groups. And the military justice system still prosecutes civilians for offending or threatening the armed forces, including journalists who publish satirical reports.

For democratic leaders, the most troublesome holdover from the past is Pinochet himself, who remains commander in chief of the 53,000-man army and may legally keep the post until 1997. Despite widespread calls for his resignation, the 75-year-old general has said that he intends to stay on to shelter his men from persecution by civilian authorities and will retire only when he finds it "convenient."

PINOCHET'S PRESENCE

Although Pinochet pledged to remain aloof from politics and ensure that the army remains "nondeliberative," he has created a shadow cabinet of high-ranking political advisers, and many of his recent actions and statements have been intended to intimidate civilian authorities. He has boycotted meetings with Aylwin, used others to lambaste the President's policies and aides, and warned that the armed forces will not tolerate being put on trial for human rights abuses.

Aylwin has responded to Pinochet's challenges by skillfully managing his relations with other military commanders, especially the heads of the air force and national police, who have openly disagreed with Pinochet in the past. In a pivotal meeting of the National Security Council, a constitutional body designed to permit the military to oversee civilian authority, the other military commanders sided with Aylwin after Pinochet insisted he had the authority to deploy Chilean troops. In November, 1990, Aylwin refused to endorse Pinochet's promotion of two generals. Aylwin's decision was ratified by the comptroller general, a Pinochet appointee, providing critical suport for Aylwin's authority.

Several embarrassing developments have added to civil-military tensions and tarnished the image of the army. In a dinner speech in September, Pinochet departed from his text and attacked German military personnel as "drug addicts, longhairs and homosexuals."[7] Two financial scandals, one involving Pinochet's son and the other involving a secret investment fund run by the secret police and patronized by a number of high-ranking officers, have weakened the military's credibility even more than previous accusations of human rights abuses.

An equally serious problem for the army has been the discovery of a number of clandestine graves near former military camps and prisons. Between May and August, 1990, more than 40 corpses, many with hands bound and bullet wounds to the head, were exhumed amid intense publicity. Some were identified as individuals the army had reported as missing or shot "while trying to escape" in the days after the coup. At one point the army issued a statement contending that the country had been at war—the line of reasoning it has traditionally used to justify repression after the coup.

Even with his intemperate style, Pinochet himself remains the army's best guarantee that its financial peccadilloes and past abuses will not lead to an institutional witch hunt. Although virtually no one in Chile believes that political conditions would permit another military coup, Pinochet's frequent vow to protect "my men" from civilian attack remains an ominous reminder of the army's power to defy government authority.

POLITICAL RECONCILIATION

Despite tense civil-military relations and the political distance between the government and its conservative opponents, the broad consensus for a

(Continued on page 84)

Arturo Valenzuela is director of the Center for Latin American Studies at Georgetown University. **Pamela Constable** is the Latin American correspondent of the *Boston Globe.* Their book on the Pinochet era in Chile will be published in 1991.

[7]*Apsi* (Santiago), September 26, 1990, p. 11. This outburst infuriated German military authorities, who responded by dismissing Pinochet as a petty tyrant who had justified "torture and terror" in the name of military obedience. The exchange was especially ironic since Chile's army was forged under the highly disciplined tutelage of Prussian forces in the latter part of the nineteenth century.

"When [President Carlos Saúl] Menem began his second year, it was clear that he had stubbornly enforced the fundamental features of his stabilization plan, using a tight monetary policy and some budget cutting. However, Argentines were still not ready to call the plan a success; much more had to be done."

Argentina's Economic Reform

By Gary W. Wynia
Professor of Political Science, Carleton College

ARGENTINES are still trying to determine President Carlos Saúl Menem true political colors. A devout Peronist for more than a quarter century, he came to office in July, 1989, declaring that he would replace entrenched populist capitalism with the classical free market variety. As he said, "We have begun a program that will extract blood and sweat, but we do it because there is no other way to save the nation."[1] The fact that he attempted this change was not surprising at a time when free markets were in vogue throughout South America and Mexico. What was amazing was the fact that he continued to try for more than a year in a nation where few policy innovations have been allowed to survive that long.

Menem was inaugurated six months ahead of schedule as retail prices were rising 150 percent a month. With price controls and promises to cut government spending, he halted this bout of hyperinflation in just a few weeks. Nevertheless, by November it had become obvious that Menem was not reducing spending sufficiently to keep inflation down; nor did he help the economy when he allowed a huge wage increase agreement between the General Confederation of Labor (CGT) and big business. Newspapers were filled with reports that his rescue operation was coming apart, inciting people to buy United States dollars as a defense against inflation. But this raised the price of dollars, which caused nearly all retail prices to rise. Consequently, the inflation rate, which had been "only" 7 percent in November, accelerated to 40 percent in December.

On December 15, Menem replaced Minister of Economy Nestor Rapanelli with Antonio Erman Gonzalez, an accountant who had worked for him when he was governor of La Rioja province. Immediately after taking office, Erman Gonzalez opened the economy even more than Rapanelli had; with one sweeping decree he lifted price controls, allowed the exchange rate to float freely, slashed export and import taxes, and removed many restrictions on foreign trade. He also announced that the Treasury would no longer finance the government budget deficit.

Two weeks later, the government dropped another bombshell. Its economists were aware that many people were keeping some of their australes in interest-bearing, seven-day bank certificates. The banks had then lent the money to the Treasury to finance the national debt. But on January 3, 1990, President Menem decreed that each depositor's savings had to be converted into 10-year government bonds, with interest and principal guaranteed in dollars. Essentially, this meant that savers suddenly had less money to spend, because they were allowed to sell their bonds only for a small portion of their 10-year value, use them to pay taxes or redeem them a decade later.[2]

Nevertheless, the government's actions did not prevent another round of hyperinflation; prices rose 79 percent in January, 62 percent in February and 96 percent in March. Refusing to concede, Erman Gonzalez announced at the begining of March that he was suspending payment to thousands of the government's domestic suppliers. Since the government paid several billion dollars to local industries annually , halting payments—albeit temporarily—kept even more money out of circulation. As a result, the economy went into a deep recession, hyperinflation stopped and prices rose only 11 percent in April.

The United States dollar, which had soared from a value of 14 australes in February, 1989, to nearly 6,000 australes one year later, fell and stabilized at around 5,500 australes to the dollar in April, 1990. While the cost of living increased by 716 percent during the first six months of 1990, the value of the dollar in australes rose only 291 percent. After having taken refuge in the dollar to save themselves from hyperinflation, Argentines suddenly discovered that they were better off with australes.

To tighten control over government corporations that had operated semi-autonomously and often in

[1] *La Nacion* (Buenos Aires), international edition, September 10, 1990, p. 5.

[2] For an excellent summary of the decisions made in December, 1989, and January, 1990, see Peter Passell, *The New York Times,* January 30, 1990.

great debt, Erman Gonzalez announced in August, 1990, that no agency or government corporation could set prices for its services or prepare a budget without his approval. Unlike many of his predecessors, who talked tough and then conceded to their critics, the soft-spoken Erman Gonzalez tried hard to rein them in. He quickly became notorious for his blunt responses to anyone demanding more funding; he simply said, "sorry, we're broke," and sent them home.

Recession ended hyperinflation, but it did not eliminate inflation. Instead, prices continued to increase between 10 and 20 percent monthly through September. Moreover, the gross domestic product (GDP), which had shrunk by 3 percent in 1988 and 6 percent in 1989, was expected to fall even further in 1990. Vice President Eduardo Duhalde lamented that, "in a nation like ours, with a 17 percent monthly inflation rate, you just cannot reactivate the economy."

Menem has also begun to privatize some of the government's enterprises. After frequent postponements and sudden modifications in regulations, in June, 1990, the government auctioned Entel, the national telephone company, to two buyers. The portion of Entel that served Buenos Aires and the south was bought by Telefonia de España, the Spanish telephone company, with Citibank. Bell Atlantic, a United States company bought the portion that served northern Argentina.[3]

But only 4 months after its purchase, Bell Atlantic was forced to withdraw because Manufacturers Hanover Bank failed to supply Bell Atlantic with adequate financing. So Menem then turned to an Italian and French consortium, whose purchase of Entel's northern service was financed by J.P. Morgan and Company, another United States firm. The government's sale of Aerolineas Argentinas, the national airline, was more easily accomplished; in July, 1990, it was purchased by Iberia, the Spanish airline.[4]

In October, Menem announced the second phase of privatization, which included plans to sell all or most of the Buenos Aires electric power company, the government-owned coal and natural gas firms, the government-owned shipping company and the Buenos Aires subways. The government also sold highways to Argentine firms (who turned them into toll roads) and the railway line from the interior to the port in Bahia Blanca.

The opposition found much to criticize in Menem's approach to privatization, claiming that he was too generous to buyers who had purchased loans made to Argentina by foreign banks at less than 20 percent of their original value and had then exchanged them at full value to purchase shares of public corporations like Entel. Menem responded that he needed to reduce the size of the government by selling deficit-ridden companies. He asked his critics to take his privatization effort seriously even though he and his fellow Peronists had opposed privatization when President Raúl Alfonsín had tried to do it two years earlier.

Budget cutting, recession, privatization and rising unemployment inflicted terrible social distress on the nation. Government services rapidly deteriorated, and the real income of government employees fell by almost one-half, hurting the middle class as well as the poor. Government facilities fell into disrepair, and people who had relied on emergency food and medicine from the Alfonsín government received less and less aid from Menem. Experts warned that this would provoke social protests, but during his first 14 months in office Menem publicly insisted that people had to pay for the nation's economic reconstruction. He was afraid to make any concessions because he was apparently convinced that people would believe him to be too weak to maintain his original plan.

When Menem began his second year, it was clear that he had stubbornly enforced the fundamental features of his stabilization plan, using a tight monetary policy and some budget cutting. However, Argentines were still not ready to call the plan a success; much more had to be done. Inflation had to come down further, and businesses needed to begin investing and producing again. Moreover, Menem could not allow social deterioration to continue. Even conservative economists warned that Menem's economic program would backfire unless a systematic effort were made to administer some relief to the poor.

PRESIDENTIAL POLITICS

Menem insisted that circumstances beyond his control had forced him to deregulate the nation's economy. In the early 1950's, President Juan Perón had imposed economic austerity and allowed multinationals to return when his economic boom had ended, and Menem claimed he was doing the same.

Most Peronists disagreed with Menem's approach, but there was little that they could do initially to stop him. He was President and they were dependent on the resources he controlled. Moreover, the Peronist party lacked discipline. Factions within the party multiplied, some of them expressing displeasure with Menem's actions. But

[3]The Spanish company was to operate all phone service south of a line that went across the country starting at the northern city limits of Buenos Aires.

[4]The sale of the telephone company and airlines using debt swaps was expected to eliminate $5 billion of Argentina's $40-billion debt with commercial banks. See *The New York Times,* October 6, 1990.

this was largely an exercise in theatrics, especially in the Chamber of Deputies, where Peronist members thrived on the attention the press gave to each faction's creation.

The CGT did not make Menem's task any easier. He encouraged dividing the organization into two groups similar in size; one headed by his critic, Saul Ubaldini and his CGT-Azopardo wing, and the other led by Menem's ally, Guerino Andreoni, which called itself the CGT–San Martín. For a year Menem let the two groups dance around each other, never attacking Ubaldini directly but making his preference for Andreoni clear. Ubaldini criticized Menem's economic policy, but he was careful not to mobilize any massive confrontations with the government although he allowed individual unions to strike whenever they wished.

After waiting one year, Menem gave official recognition to Andreoni and his San Martín faction as the CGT's official representative. Ubaldini immediately announced that he would respect this decision because he knew that it was not a real showdown. While this meant that only delegates from San Martín could serve on government committees dealing with labor, informal conversations with Ubaldini's people continued. Menem knew that he could not afford to alienate many labor leaders, so he avoided direct confrontation as long as he could.

Nevertheless, Menem could not resist disclosing in April, 1990, that he intended to limit the right to strike for all unions involved in essential public services. A Peronist President — not someone in the armed forces or the political opposition — was telling labor leaders that the nation's economic recovery could not tolerate a strike. Since 1955, different governments had tried to devise new regulations to limit strikes, but they had either backed off or had resorted to military repression. Menem believed that to win confidence among the investors he hoped to persuade to return to the country, he had to prevent a repeat of Argentina's strike-ridden past, especially the constant disruptions of services like electricity, transportation, communications and banking.

Ubaldini and other labor leaders objected, but Menem insisted that since Juan Perón had limited the right to strike during his presidency, he could do the same. Menem originally intended to use presidential decrees to limit strikes, but when Peronists in Congress noisily objected, he retreated, agreeing to seek congressional approval if they completed the new legislation within 60 days. Congress, however, debated and delayed passage for nearly six months, causing a frustrated Menem to resort to a presidential decree in late October to prohibit strikes in crucial services.[5]

The first real test of Menem's stand on the unions came in September, 1990. The telephone company union in Buenos Aires received a pay increase from the Entel company management, but Economy Minister Erman Gonzalez, with his recently acquired authority over all public corporations, refused to approve the raise, insisting that the government could not afford the increase. The Buenos Aires union immediately called a strike, hoping to force the government to back down. Menem refused; instead he dismissed several of the striking employees and persuaded the national telephone workers union to oppose the strike by its Buenos Aires members.

Two weeks later the striking workers gave in, and Menem declared a major victory for himself and his government. Menem's opponents in the Peronist party found this difficult to swallow, but they were not yet prepared to undermine Menem's presidency. It was truly a novel experience for the Peronists.[6]

Menem's Peronist government also benefitted from the Radical party's weakness after its defeat at the polls. Radical party leader Raúl Alfonsín was active and outspoken in his criticism of Menem, but he enjoyed almost no popularity outside his party; even within the party, he was forced to share leadership with Eduardo Angeloz, the governor of Córdoba province, whom Menem had defeated in the presidential election. The Radical party was so discredited by Alfonsín's presidency that only its most loyal members listened to its orators. Some Radicals knew that they had to refocus and reorganize the party to compete effectively again, but they procrastinated. In October, 1990, party leaders met to plan for the future, only to leave their convention seriously divided between followers of Alfonsín's wing and those of Angeloz's. Consequently, Menem paid little attention to the Radicals when they denounced his economic policies as cruel and arbitrary.

Menem was more prudent with the armed forces. He praised their patriotism and dedicated monuments to soldiers and sailors who were killed in the Falklands (Malvinas) War in 1982. At the same time, he cut the defense budget even more than Alfonsín did. Menem refused to exclude the military from the across-the-board budget reductions that were part of his austerity measures. Smaller budgets forced cuts in the annual army draft from the usual 80,000 per year to less than 30,000. By 1990, the number of military personnel

[5]The services were broadly defined to include electricity, transportation, education and health care.

[6]Some of Menem's fans referred to his victory as equal to Prime Minister Margaret Thatcher's triumph over the coal miners union in the Great Britain and President Ronald Reagan's defeat of the air traffic controllers in the United States.

had declined from 200,000 to around 100,000. Many jobs once done by draftees were turned over to noncommissioned officers. Air force pilots were limited to only six hours flying time a month. Moreover, Fabricaciones Militares, the conglomerate of industries that the armed forces had dealt with over the years, was included in the government's privatization scheme, which required the conglomerate to sell all but its armaments factories to private bidders.

On December 3, 1990, Menem faced his first military rebellion. But unlike the three rebellions that Alfonsín faced, this one was bloody and quickly ended by loyalist army troops. On the morning of December 3, soldiers loyal to Colonel Mohamed Ali Seineldin, the leader of an earlier rebellion, took over army headquarters in Buenos Aires and four other installations. The rebels demanded the replacement of army chief of staff Lieutenant General Martín Bonnet. Menem proclaimed a state of siege, and units loyal to Bonnet immediately crushed the rebels. Two days later, Menem lifted the state of siege and welcomed visiting United States President George Bush. While the return to normalcy was quick, it masked the still tendentious relationship that exists between the military and the government.

A PUBLIC PROTEST

Because of its terrible experience with hyperinflation, the public was persuaded to allow Menem some leeway with the economy. But Argentines exercised less restraint in expressing their discontent with the current political process. Specifically, they objected to "elitism" in the Peronist and Radical parties and expressed this objection by electing candidates from minor parties in a few provincial elections. Then, in mid-1990, the people defied the pollsters and the nation's leaders by standing up against what they regarded as a conspiracy between Peronists and Radicals.

The conspiracy centered on the drafting of a new constitution for Buenos Aires province, which was prepared privately by leaders of the two parties instead of a constitutional convention. Much of what they proposed was necessary, for example, giving local governments more authority to raise taxes and expropriate property for public use, and allowing the governor more than one term (which was allowed in most other provinces). This last provision gave incumbent Peronist Governor Antonio Cafiero, who helped write the new constitution, the right to succeed himself. The process was too self-serving and conspiratorial for the Buenos Aires electorate. On August 5, 67 percent of the voters rejected the constitution.

When asked why they rejected the new constitution, 54 percent of the voters said it had been drafted in an undemocratic manner, and 38 percent said their vote was a response to their growing dislike of party politicians. The rejection of the constitution was shocking, because the electorate had been urged to vote for the constitution by leaders in the Peronist and Radical parties, CGT leaders and 59 of 70 deputies in the Buenos Aires Chamber of Deputies.[7]

The vote showed that Argentines wanted more control over their elected officials, not less. In 1990, criticizing the system of representation in the national government became popular. Members of the Buenos Aires Chamber of Deputies were chosen by proportional representation, a method once regarded as representative because it distributed seats in proportion to the votes received by each party. Argentines now demanded that it be replaced with a single-member district system like the one used by the House of Representatives in the United States and the House of Commons in Great Britain.

Under the proportional representation system, party leaders could distribute seats among themselves, leaving voters to choose a party whose candidates they did not know personally. The new system would allow voters to select a candidate; along with party primaries in each district, this would force politicians to listen to the electorate. Argentines preferred not to worry about the adverse effects such a system would have on minor parties and its tendency to favor incumbents over challengers; breaking up the control exercised by party elites was a higher priority.

"PRAGMATISM" ABROAD

When Menem visited Chile in September, 1990, he announced that "we want to emerge once and for all from that provincial enclosure that made us think a few years ago that we could develop in privileged solitude."[8] Menem spoke for most Argentines when he made this statement. He made abandoning the nationalist vanity that had circum-

(Continued on page 83)

[7]See *La Nacion,* August 12, 1990, and *Buenos Aires Herald,* August 5, 1990.

[8]*The New York Times,* September 4, 1990.

Gary W. Wynia is the author of *The Politics of Latin American Development,* 3d edition (New York: Cambridge University Press, 1990), and *Argentina: Illusions and Realities,* 2d edition (New York: Holmes and Meier, forthcoming). The author gathered material for this article while he was in Argentina during the spring of 1990.

"When García assumed the presidency of Peru in July, 1985, some commentators glibly predicted success for his government simply because they believed that the nation's fortunes could not sink any lower; at worst, Peru would muddle through. They were wrong. President Fujimori has little room for error as he tries to bring his country back from what many observers fear is the brink of social dissolution."

Fujimori and the "Disaster" in Peru

BY DAVID P. WERLICH

Professor of History, Southern Illinois University at Carbondale

On July 28, 1990, Alberto Keinya Fujimori was inaugurated President of Peru. This son of humble Japanese immigrants became the first person of East Asian descent to lead an American republic. But the festive atmosphere was clouded by the realization that the new administration faced a daunting task. In his inaugural address, Fujimori declared that he had "inherited a disaster" from his predecessor, President Alán García Pérez. Few of the new chief executive's 22 million compatriots disagreed with him. The Peruvian economy was tumbling toward collapse; the Shining Path (Sendero Luminoso, SL) guerrillas had begun their second decade of struggle with unabated fanaticism; and the booming cocaine industry had corrupted the nation's security forces.[1]

García was not entirely to blame for the problems that awaited Fujimori. Peru's economic crisis was rooted in the mismanagement of a 12-year military dictatorship that ended in 1980 and bequeathed to President Fernando Belaúnde Terry a stagnant, inflation-ravaged domestic economy and a $9-billion foreign debt. Belaúnde's free-market remedies failed to cure the country's ailing economy. His legacy to the incoming García administration in 1985 included a foreign debt that had ballooned to $14 billion and an inflation rate of 250 percent. Almost 60 percent of the nation's industrial capacity was idle, and little more than one-third of Peru's workers were fully employed.

Although he inherited a nearly moribund economy, García assumed the presidency amid a mood of guarded optimism. Convinced that the orthodox economic policies of his predecessor were ineffective and inappropriate for Peru, García and his advisers adopted a "heterodox" plan that envisioned a painless route to economic recovery through growth and income redistribution.

García's administration froze prices and raised wages, especially for lower paid workers. This strategy assumed that a cap on prices would dampen inflation and that increased demand fueled by higher wages would reactivate idle industries. Cuts in taxes and interest rates combined with government appeals to Peruvian entrepreneurs would encourage substantial private investment to sustain the economic expansion. Meanwhile, the government would cover its shortfall in tax revenues by restricting payments on the foreign debt to 10 percent of Peru's export earnings, only a small fraction of what was due on these obligations.

García's program produced excellent results in the short run. The inflation rate fell to 63 percent in 1986. By the end of 1987, the gross domestic product (GDP) had surged 16 percent, and real wages had jumped by almost one-third. But Peru's internal economy is closely tied to the international marketplace, and this was the major weakness in García's plan. Complicated exchange controls overvalued the inti, Peru's new currency. In effect, imports were subsidized, making them very attractive, while Peru's exports became less competitive overseas. A massive trade deficit in 1987 nearly exhausted Peru's reserves of foreign currency. At the same time, inflationary pressures returned.

The government might have averted a crisis if it had quickly applied orthodox remedies, but García shrank from these unpopular measures. An ill-advised and ultimately failed attempt to nationalize the financial system in July, 1987, caused a political firestorm and further delayed economic adjustments. The administration belatedly devalued the currency in December, 1987, but negated the impact of this action with wage increases and higher subsidies for food, fuel and public utilities. Inti notes were entered into circulation in large quantities to plug a cavernous budget deficit.[2] In Sep-

[1]For background see David P. Werlich, "Peru: García Loses His Charm," *Current History*, vol. 87, no. 525 (January, 1988), and David Scott Palmer, "Peru's Persistent Problems," *Current History*, vol. 89, no. 543 (January, 1990).

[2]Good analyses are provided by Rudiger Dornbusch and Sebastian Edwards, "Macroeconomic Populism," *Journal of Development Economics*, vol. 32, no. 2 (April, 1990); and Felipe Ortiz de Zevallos, *The Peruvian Puzzle* (New York: Priority Press, 1989), pp. 19–42.

tember, 1988, the administration instituted the first in a series of harsh austerity measures, erasing the gains of García's first two years.

Between 1987 and 1989, Peru's GDP fell 28 percent, and real wages plunged 60 percent. At the end of García's term in July, 1990, the government's expenditures were three times larger than its revenues, and inflation had soared to an annual rate of more than 3,500 percent. The foreign debt approached $24 billion. Peru had defaulted on $2 billion in loans from the International Monetary Fund (IMF) and other international lending agencies, earning it a dubious distinction as "the world's worst debtor."

THE SHINING PATH INSURGENCY

The insurgency that awaited Fujimori began in May, 1980, on the eve of President Belaúnde's election. The Shining Path launched its "people's war" in the heavily Indian department of Ayacucho, in the southern Andean highlands. Founded by former philosophy professor Abimael Guzmán Reynoso, the SL espouses a dogmatic blend of Maoist Marxism, the ideas of Peruvian revolutionary thinker José Carlos Mariátegui and the theories of the messianic Guzmán. The group promised an unrelenting war to establish a primitive agrarian Communist society. The SL is an implacable foe of Peru's other Marxist groups and denounces all current Communist regimes, including those in Cuba, China and North Korea.[3]

The Shining Path quickly gained control over much of the southern highlands, assassinating community leaders and bullying all who opposed it. President Belaúnde sent thousands of police and soldiers into the region. Peasants previously terrorized by the SL were also brutalized by the security forces. The guerrillas carried their murderous campaign to nearly all parts of Peru, including Lima, where they frequently dynamited electric pylons to cut off electricity in the city. By the end of Belaúnde's term in 1985, the war against the SL and the smaller, much less extreme Tupac Amaru Revolutionary Movement (MRTA) had taken about 8,000 lives, mainly those of innocent civilians.*

As a presidential candidate, García had criticized Belaúnde's military approach to the insurgency. He proposed economic development programs to undermine peasant support for the Shining Path guerrillas and promised to end abuses by the security forces. But the development plans were not funded, and after early efforts to rein in the soldiers, reports of human rights abuses again became commonplace.[4] An increasing wave of terrorist violence, especially in Lima, brought the imposition of martial law and frequent overreaction by security forces.

Government repression and the dismal state of the economy produced new supporters for the insurgency in the cities, especially among impoverished migrants in Lima. The SL also found adherents among the 250,000 secondary school graduates who are denied admission to Peru's universities each year, and among the hundreds of university graduates who cannot find employment commensurate with their education.

In 1987 the SL adopted a new urban strategy to capitalize on this discontent. Rather than slowly strangling the cities from the countryside, as originally planned, the SL hoped to build mass support in Lima and overwhelm the government in a popular uprising. To this end, the SL heightened its activities in the capital, establishing legal front groups, infiltrating competing organizations and even staging open political rallies. But the terrorists faced strong competition from Peru's legal leftist parties, which participate peacefully in the political system.[5]

The Shining Path's most dramatic success during García's presidency occurred in the remote, jungle-covered Huallaga Valley, which is on the edge of the Amazon Basin. Here, some 60,000 peasant farmers cultivate almost half a million acres of coca, from which more than half the cocaine that enters the United States is refined. Since 1980 the United States government has funded a modest program to promote the cultivation of alternative cash crops. The United States also finances the Mobile Rural Patrol Unit (UMOPAR), an elite branch of the national police. Assisted by United States Drug Enforcement Agency personnel, UMOPAR uproots coca bushes, destroys processing facilities and attacks jungle airstrips used by cocaine traffickers.

In 1985 a powerful force of SL guerrillas gained control of the Huallaga Valley and made themselves guardians of the coca farmers. They protected the farmers from the abuses of the local drug traffickers, who are linked to the Colombian cartel that smuggles the cocaine to the United States. Although the druglords and the revolutionaries have different long-term objectives, most investigators believe that the two groups have forged an alliance.[6]

*Editor's note: For further information on the MRTA, see Palmer, op. cit., p. 7.

[3]Recent studies include Gabriela Tarazona-Sevillano, *Sendero Luminoso and the Threat of Narcoterrorism* (New York: Praeger Publishers, 1990).

[4]Americas Watch Committee, *Tolerating Abuses: Violations of Human Rights in Peru* (New York: Americas Watch Committee, 1988).

[5]William A. Hazelton and Sandra Woy-Hazelton, "Sendero Luminoso and the Future of Peruvian Democracy," *Third World Quarterly*, vol. 12, no. 2 (April, 1990), pp. 24-27.

[6]Edmundo Morales, *Cocaine: White Gold Rush in Peru* (Tucson: University of Arizona Press, 1989), pp. 133-141, presents a dissenting view.

The SL protects the cocaine industry from the security forces, and the traffickers provide money and weapons to the guerrillas. Government efforts to eradicate the cocaine industry in the valley have been hampered by widespread corruption, inadequate resources, rivalries between the police (who have jurisdiction over drug matters) and the army (which is assigned the mission of defeating the Shining Path), and the failure to adopt a comprehensive program to attack the problems of drugs and the SL simultaneously.

At the time of the national elections in mid-1990, the death toll in the 10-year guerrilla war approached 21,000 people. Property damage was estimated at $16 billion. A state of emergency, with constitutional guarantees in abeyance, existed in almost two-thirds of the country, affecting half the population. The SL was thought to have fielded about 5,000 guerrillas and had 50,000 followers nationwide.

THE 1990 ELECTION

Long before the conclusion of García's term, Peruvians began to search the political horizon for his successor. Widespread displeasure with Peru's established political parties and professional politicians made independent newcomer Mario Vargas Llosa an early favorite. Vargas, an internationally renowned novelist, established the Liberty movement in 1987 to oppose García's attempt to nationalize the banks. Advocating political democracy and free market economics, Vargas won support from the wealthy elite and much of the middle class. Furthermore, his conversion to economist Hernando de Soto's controversial gospel of deregulation provided fertile ground in which to cultivate a mass electoral base of Peru's "informals." These are the hundreds of thousands of unlicensed street vendors, taxi drivers and other workers who, according to Soto, generate almost 40 percent of the GDP outside the formal economy.[7]

In February, 1988, Liberty joined with the center-right Popular Action party of former President Belaúnde and the more conservative Popular Christian party to form the Democratic Front, which later nominated Vargas for the presidency. The novelist's links to well-known conservative politicians, however, detracted from his original appeal as an independent.

García's dreadful performance as President gravely weakened his center-left American Popular Revolutionary Alliance (APRA) and its presidential candidate, Luis Alva Castro. Vargas's major challenge seemed likely to come from the United Left (IU), a coalition of six Marxist parties that had finished second to García in the 1985 presidential election.[8] But the left failed to agree on a common candidate for President. Alfonso Barrantes Lingán, the former mayor of Lima, became the candidate of the moderate IU parties, which joined a few small social democratic groups to form the Socialist Left (IS). The radical wing of the IU nominated Henry Pease García, a prominent social scientist.

In early 1990, public opinion polls showed that about half the electorate favored Vargas, and that he had a commanding lead over his nearest competitor, Barrantes. But the two leftist candidates bloodied each other rather than Vargas, and APRA's Alva became Vargas's main competitor. With fewer than six weeks until the April 8 election, most analysts conceded the victory to the 54-year-old Vargas. The only remaining doubt was whether he could garner the constitutionally required 50 percent majority on the first round and thereby avoid a runoff against the second-place finisher. But in an amazing reversal of fortune, Vargas lost many of his early supporters to Fujimori, who emerged from a pack of five minor candidates.

Born in Lima in 1938, four years after his parents had arrived from Japan and found work as agricultural field hands, Fujimori was raised in a working-class neighborhood and educated in public schools. He studied agricultural engineering at Peru's National Agrarian University, and after graduation continued his studies in France and the United States. Returning to Peru, Fujimori became a professor and then rector of the National Agrarian University. He achieved national recognition as the knowledgeable host of "Getting Together," a television talk show devoted to public affairs.

In 1989, Fujimori and a group of politically independent professionals and small businessmen organized the political party Cambio (Change) '90. Peru's small evangelical Christian community (about five percent of the population) gave early support to the movement, providing about one-fourth of Cambio '90's congressional slate as well as its candidate for Second Vice President, Baptist minister Carlos García. Using door-to-door missionary methods, the evangelicals tirelessly canvassed their communities for Fujimori.

With the campaign focused on Peru's economic crisis, Vargas prescribed a severe shock therapy of orthodox austerity and free market policies to reduce the inflation rate quickly to 10 percent. He wanted to eliminate the budget deficit by ending government subsidies immediately and by selling

---

[7]Hernando de Soto, *The Other Path,* translated by June Abbott (New York: Harper and Row, 1989), p. 12.

[8]On these parties, see William A. Hazelton and Sandra Woy-Hazelton, "Terrorism and the Marxist Left: Peru's Struggle Against Sendero Luminoso," *Terrorism,* vol. 11, no. 6 (1988), pp. 472-480.

all of Peru's 161 state-owned companies, which were losing more than $2 billion annually. He planned to resume payment on the foreign debt.

Vargas's critics characterized him as an unreliable political dilettante who had evolved from a Communist devotee of Cuban President Fidel Castro to a neoconservative admirer of British Prime Minister Margaret Thatcher. They charged that his program would bring unbearable suffering to Peru's poor and would eliminate half a million middle class jobs. Poor Peruvians were thoroughly frightened by the prospect of Vargas's victory. Peru's middle class and even some members of the wealthy elite grew uncomfortable with the writer's attacks on the "mercantilist" policies long enjoyed by the nation's businessmen and his threats to jail tax evaders.

Describing himself as a political centrist, Fujimori occupied the ideological space between Vargas on the right and Alva on the left. Like Vargas, Fujimori called for austerity and free market policies. At the same time, he and the candidates of the left charged that Vargas's proposed shock treatment was too drastic. Fujimori said that he would restore economic stability without causing a depression, using development projects to increase supply. His critics said that he had no coherent plan, only an empty slogan: "Honesty, Hard Work and Technology."

Because polls were prohibited two weeks before the elections, the results surprised most analysts. As predicted, Vargas led the field with 27.6 percent of the vote. But Fujimori polled 24.6 percent to Alva's 19 percent. Pease and Barrantes garnered 6 and 4 percent of the ballots, respectively.

The new two-man contest brought few changes in the programs offered by the candidates. Vargas indicated that he might administer his shock therapy more gradually and soften its impact on the poor with a substantial relief program. Fujimori continued to be short on specifics, but pledged that he would retain and make more efficient at least a dozen or so "strategic" state-owned enterprises, including the national oil company, the largest mining firms, the railroads, airline, telephone and electric companies. He would trim the budget deficit gradually, reducing the rate of inflation to 100 or 200 percent during his first year. He would end García's confrontational attitude toward the international financial community, but would insist that the nation's creditors provide Peru with substantial debt relief.

Cries were raised against Fujimori's evangelical followers. The Roman Catholic Church announced that it was "institutionally aloof" from the candidates, although conservative members of the church hierarchy attacked the political activism of the "sects" and organized a massive procession of the faithful in Lima on May 31 to protest an alleged insult by the Protestant evangelicals. Peruvians thus witnessed the anomaly of Catholic bishops supporting professed agnostic Vargas against practicing Catholic Fujimori.[9] Some Democratic Front supporters sought to exploit Peruvian prejudice against Asians by reminding Peruvians that during World War II, 1,700 people of Japanese ancestry (about 10 percent of the Peruvian-Japanese community) had been sent to internment camps in the United States.[10]

Fujimori responded that the evangelicals, like the Japanese, were noted for their honesty and hard work, qualities he said were desperately needed in Peru. And he tried to use his ancestry as a political asset. Fluent in Japanese, Fujimori suggested that he could obtain loans and development capital in Japan—a claim that was denied by the government in Tokyo. In an apparent effort to create a macho image for the soft-spoken Fujimori, Cambio '90 publicized his black belt in karate and descent from Japan's ancient warrior class. The kimono-clad candidate was shown wielding a samurai sword and breaking bricks with his bare hand. The novelty of a nisei President appealed to many citizens, and the prefix "Fuji" was applied to almost every aspect of the Cambio '90 campaign.

The racist attacks on Fujimori (publicly denounced by Vargas) backfired. The Peruvian masses are characterized by varying degrees of Indian ancestry; they resent the bigotry common among the wealthy white elite and the lighter-skinned members of the middle class. The insinuation that Fujimori was alien to Peru seemed absurd coming from supporters of Vargas, an international celebrity who had spent most of his adult life abroad, whose campaign was planned by consultants from Boston, and whose rallies were covered by reporters from glossy foreign magazines.[11]

(Continued on page 81)

[9]Jeffrey Klaiber, "Fujimori: Race and Religion in Peru," *America*, vol. 163, no. 6 (September 15, 1990), pp. 133–135.

[10]C. Harvey Gardiner, *The Japanese and Peru, 1873–1973* (Albuquerque: University of New Mexico Press, 1975), pp. 39, 61–87.

[11]See Tim Golden, "Peril in Peru: Can Mario Vargas Llosa, Novelist Turned Presidential Candidate, Save His Country from Ruin?" *Vanity Fair*, vol. 52, no. 12 (December, 1989).

David P. Werlich is the author of *Peru: A Short History* (Carbondale, Ill.: Southern Illinois University Press, 1978) and many articles on contemporary Peruvian affairs. His most recent book is *Admiral of the Amazon: John Randolph Tucker, His Confederate Colleagues, and Peru* (Charlottesville, Va.: University Press of Virginia, 1990).

"Despite a massive infusion of money and manpower, no one can seriously claim that the war on drugs in Bolivia is being won."

Bolivia: The Politics of Cocaine

By Melvin Burke
Professor of Economics, University of Maine

Bolivia's sad and turbulent history continues to repeat itself. The coca boom of today has replaced the tin boom of the last century, which in turn supplanted the exploitation of silver and other precious metals during the colonial period. And as in the past, Bolivia's export-based economy continues to depend on foreigners for everything from bank loans to economic advisers.

It is impossible to understand Bolivia's current economic situation without first understanding the links between Bolivia's prosperity during the 1970's and the inflation, price stabilization and stagnation of the 1980's. The economic prosperity Bolivia enjoyed during General Hugo Banzer Suarez's reign between 1971 and 1978 was financed with petrodollars borrowed from abroad. In less than a decade, public debt increased from $671 million to more than $2.5 billion. Foreign loans were supplemented during these global inflationary years by increased export earnings from tin and crude oil as well as illicit dollars from the booming cocaine trade.

Bolivia's so-called economic miracle, however, was short-lived. It came to an abrupt end in late 1979, when the United States Federal Reserve Board, following a monetarist policy to curb inflation, raised interest rates dramatically, precipitating the worldwide recession of 1980–1982.[1] Prices for oil and tin collapsed, private capital fled Bolivia, short-term foreign debts tripled between 1980 and 1982, and Bolivia fell into a debt crisis and depression from which it has yet to recover. Not even the Bolivian military could contain the social unrest brought on by this economic crash, which manifested itself in political turmoil. The four years from 1978 to 1982 witnessed no less than nine heads of state.

The deteriorating economic situation—combined with pressure from the international community—forced the Bolivian military to return to its barracks in October, 1982.[2] Hernán Siles Zuazo and his Democratic and Popular Unity (UDP) coalition, which had won the 1980 election, then assumed power. President Siles, who had successfully implemented a stabilization program in 1957–1958, was again heir to an inflationary, no-growth economy that was not of his making. As economist Jeffrey Sachs notes:

> The Siles government inherited an annual inflation rate of approximately 300 percent (October, 1982, over October, 1981), an inability to borrow on international markets, and an economy declining sharply in real terms (real GNP [gross national product] fell by 6.6 percent in 1982). At the same time, the new government was called upon to satisfy pent-up social and economic demands.[3]

In an attempt to repeat his earlier historic success, Siles implemented six price stabilization plans during his short term of office. They all failed because his government, which included Bolivian Communist party ministers, lacked support from Bolivia's businesspeople and its international creditors. This lack of support led to capital flight, devaluation of the peso and rising prices. In a desperate attempt to stop the vicious spiral of devaluation and inflation, the Siles government fixed prices, wages, interest rates and the official exchange rate. The result was an increase in black market economic transactions, which were not taxed, and a subsequent drop in government revenues. In a futile attempt to finance government deficits, the Central Bank printed more and more money. The outcome of all these measures was the Bolivian hyperinflation of 1984 and 1985.

THE NEW ECONOMIC POLICY

Hyperinflation forced Siles to call early elections in 1985. In the elections, former General Hugo Banzer Suarez and his Democratic Nationalist Action (ADN) party won a plurality of 29 percent of the vote. Victor Paz Estensorro of the National Revolutionary Movement (MNR), however, be-

[1]Jerry R. Ladman, ed., *Modern Day Bolivia: Legacy of the Revolution and Prospects for the Future* (Tempe: Arizona State University Press, 1982).

[2]James M. Malloy and Edwardo Gemarra, eds., *Revolution and Reaction: Bolivia, 1964–1985* (New Brunswick, N.J.: Transaction Publishers, 1988), and Juan Antonio Morales, "Inflation Stabilization in Bolivia," in Michael Bruno et al., eds. *Inflation Stabilization: The Experience of Israel, Argentina, Brazil, Bolivia, and Mexico* (Cambridge: MIT Press, 1988).

[3]Jeffrey Sachs, "The Bolivian Hyperinflation and Stabilization," *The American Economic Review,* May, 1987, p. 280.

came President with only 26 percent of the vote after forming an alliance with the Left Revolutionary Movement (MIR) of Jaime Paz Zamora. Ironically, Paz Estensorro had been Bolivia's President during the previous period of inflation between 1952 and 1956.

President Paz Estensorro took office on August 6, 1985, and proclaimed the so-called New Economic Policy (NEP), which included a devaluation of the peso and a managed floating exchange rate; a cut in government spending and deficits; a freeze on public sector wages; elimination of government subsidies and controls on trade and prices; and privatization of public enterprises. This austere International Monetary Fund (IMF) stabilization program was intended to do more than eliminate inflation.

The policy succeeded in stabilizing prices, but it did so at a high human and social cost. Public sector employment decreased by 10 percent within a year, the peso was devalued by nearly 100 percent and inflation fell to an annual rate of 276 percent in 1986 and 15 percent in 1987.[4] In return for complying with the IMF conditions, Bolivia received increased international financial assistance, including loans of $225 million from the IMF, $257 million from the World Bank and $351 million from the Inter-American Development Bank. The Paris Club of creditor governments also permitted Bolivia to reschedule $2 billion in debt, and it granted Bolivia the unique privilege of repurchasing $450 million of its foreign debt owed to commercial banks at 11 cents on the dollar, with money donated by foreign governments. In short, Paz Estensorro's center-right government was handsomely rewarded for returning Bolivia's economy to an open, laissez-faire and subordinate position in the global capitalist community.

Paz Estensorro's stabilization program also led to the privatization of the national mining company, Corporación Minera de Bolivia (Comibol) and the firing of 23,000 of the company's 30,000 miners.[5] The massive unemployment of miners was only one cost of this stabilization program. Unemployment of workers increased to an estimated 20 percent, real wages decreased, and rural teachers quit their jobs in record numbers. In compensation for their reduced incomes, Bolivian government ministers were secretly paid salaries by the United Nations.[6] If this were not enough, the government imposed a 10 percent value-added tax (VAT) on all economic transactions in mid-1986.

Economist Nicholas Kaldor has observed that orthodox economic policy, like Bolivia's,

> is no more than a convenient smokescreen providing an ideological justification for such antisocial measures [as] high interest rates, an overvalued exchange rate, and the consequent diminution in the bargaining strength of labor due to unemployment.[7]

There are indications today that Bolivia's high interest rate of 19 percent discourages real investment and that the "managed" peso is seriously overvalued by approximately 20 percent, thus reducing exports while promoting imports. Moreover, there is substantial evidence that the Bolivian Central Bank is using drug money to stabilize its finances. Short-term (30-day) deposits in dollars and dollar-indexed accounts (no questions asked) increased from less than $28 million in September, 1985, to an estimated $270 million in March, 1987. Since then, dollar deposits in Bolivian banks have increased to about $700 million, and the economy has once again been "dollar stabilized."

This stabilization, however, is not an economic miracle. The return of finance capital (international loans, debt reduction and drug money) to Bolivia after 1985, the freeing of prices and regressive taxes brought price stability to Bolivia. But the program has not brought prosperity or social justice to the country. On the contrary, inequality has increased, and the economy has shrunk. Nowhere is this more evident than on the streets of La Paz, where street vendors and beggars contrast with the fancy boutiques, posh hotels and Mercedes-Benzes. The regressive VAT absorbs nearly 15 percent of the gross domestic product (GDP) and the high-interest dollar deposits discourage productive investment. As a result, "real per capita GDP fell by 5.6 percent in 1986, 0.6 percent in 1987 and 0.1 percent in 1988."[8] From 1986 to 1989, Bolivia's per capita GNP was only 74 percent of the per capita GNP in 1980, and the foreign debt of $3.5 billion absorbs 30 percent of the nation's legal export earnings.

The MNR initially paid for the high cost of its price stabilization, losing heavily in the municipal elections of 1987 after it received only 12 percent of the vote. In the 1989 elections, the MNR emerged victorious, with its new charismatic head, Gonzolo ("Goni") Sanchez de Lozado, winning a plurality of

---

[4]See Arthur J. Mann and Manuel Pastor Jr., "Orthodox and Heterodox Stabilization Policies in Bolivia and Peru: 1985–1988," *Journal of Interamerican Studies and World Affairs,* vol. 31 (Winter, 1989), pp. 170–176.

[5]In October, 1985, the price of tin abruptly declined by 50 percent. The International Tin Agreement and the tin market collapsed in March, 1986, when the Tin Council ran out of money to purchase tin stocks and support the price. John Crabtree et al., *The Great Tin Crash: Bolivia and the World Tin Market* (London: Latin American Bureau, 1987).

[6]Carlos Serrate Reich, *Interpelación al Neoliberalismo* (La Paz: Impresa Editorial Siglo Ltd., 1989).

[7]Nicklos Kaldor, "Monetarism and U.K. Monetary Policy," *Cambridge Journal of Economics,* vol. 4 (1980), p. 244.

[8]Mann and Pastor, op. cit., p. 174.

the vote, followed closely by Banzer and the ADN. Paz Zamora of the MIRA, who placed a weak third, however, was declared President when Banzer swung his party's votes to Paz Zamora in a congressional runoff. Unofficially, it has been Banzer who has run the country after he acquired 50 percent (17 portfolios) of the Cabinet in return for his votes. Among the portfolios held by Banzer's ADN are the powerful ministries of finance, defense and foreign affairs.

President Jaime Paz Zamora has vowed publicly to continue the stabilization program and to wage war on coca leaf producers. In return, Bolivia has received increased financial assistance from the United States. In 1989, Bolivia received $100 million in United States aid; $15 million was earmarked for drug interdiction and $40 million was part of a coca substitution program. In 1990, United States aid increased to $230 million; $33.7 million of this will go to the military if it takes part in the drug-eradication program.

WAR IN BOLIVIA

Bolivia's miners and peasants were the soldiers of the 1952 revolution that brought the MNR to power and resulted in an extensive land redistribution program. However, the MNR government was never comfortable with either the miners or the peasants of the highlands and valleys. In its development programs, the government heavily invested in the lowlands—Santa Cruz, the Chaparé and the Beni—where there were no unionized miners or organized Amayra-Quechua peasants, and no land reform programs.

After 1952, most foreign aid as well as profits from the state-owned Comibol mine went to the lowland regions. Here sugar, cotton and cattle produced on large estates promised to become the new base for economic development in Bolivia. The government's objective was to move highland peasants to the more fertile lowlands, put them to work for agro-industrial entrepreneurs, and make Santa Cruz and the Beni the center poles of development.

Instead of sugar, cotton and cattle, however, the area struck it rich with coca. Today, 80 percent of Bolivia's coca is grown in the Chaparé region, *cambas* (lowlanders) dominate the drug trade, and Santa Cruz is a cocaine boomtown. But the development policy was a dismal failure even before coca arrived. Although the lowland's share of Bolivia's GNP increased between 1965 and 1979, agriculture's share of GNP as a whole decreased, as did traditional peasant agriculture in the highlands. The heavily subsidized sugar crop satisfied domestic consumption but not export needs. Many of the loans for sugarcane, cotton and cattle were unaccounted for and became seed money for the drug-trafficking elites.

The extent to which coca production and trade now dominate the Bolivian economy is astounding. Coca accounts for an estimated 30 to 40 percent of Bolivia's agricultural production, half its GDP and 66 percent of its export earnings. Between 40,000 and 70,000 peasants produce coca, and about 500,000 Bolivians (1 in 5 of the working population) depend on coca for a livelihood either directly or through support industries.

The typical campesino earns between $1,000 and $2,500 per hectare of coca plants, which is about four times the amount he could earn from growing oranges and avocados, the next most profitable alternative crops. He receives $2 for a kilogram of coca leaf, which translates to between $70,000 and $90,000 per kilogram of processed pure cocaine on the streets in the United States. Thus, while the coca farmer makes a living, the cocaine trafficker makes a killing.

The huge profits made from trafficking are used to buy airplanes, weapons, army officers and politicians in Bolivia and abroad. Only one-fifth of the money from the Bolivian drug trade is returned to the country. This leaves about $2.5 billion, which is spent and banked abroad, mainly in the United States.[9]

With so much money to be made in the illicit drug industry, the corruption of Bolivian politics is understandable. It reached its peak on July 17, 1980, when General Luis García Meza came to power in a bloody coup. García Meza's was undoubtedly the most brutal, corrupt, neo-Nazi government in Bolivian history.

During the two years García Meza was in power, the United States stopped all military aid to Bolivia. The populist Siles government that followed was reluctant to accept military aid or to turn the army against the well-organized peasants whom Siles was attempting to woo as supporters. In an attempt to keep the military out of the drug-control business and at the same time convince foreign lenders that Bolivia was willing to cooperate in the war against drugs, Siles created an anti-drug police force, the Mobile Rural Patrol Units (UMOPAR). This force, which was later nicknamed the Leopards, was entirely trained and financed by the United States. But Siles's greatest fears were realized when the Leopards kidnapped him in an abortive coup attempt in July, 1984.

[9]Mario de Franco and Ricardo Godoy, "The Economic Consequences of Cocaine Production in Bolivia: Historical, Local, and Macroeconomic Perspectives," unpublished paper of the Harvard Institute for International Development, June 8, 1990.

This did not deter Siles's successor, Victor Paz Estensorro, from escalating militarization. In mid-1986, during Paz Estensorro's administration, the Leopards and 160 United States combat troops raided 256 suspected cocaine paste laboratories. They confiscated a mere 22 kilograms of the paste (from which cocaine is refined) and arrested only one narcotrafficker—a peasant worker. The operation, dubbed "Blast Furnace," was a failure in still another respect. Bolivian society was outraged at the government's unconstitutional use of foreign troops without congressional approval.

Paz Estensorro soon focused his drug-eradication program on two fronts: armed conflict against the peasant coca producers and a program that paid $2,000 for each hectare of coca plants "voluntarily" destroyed. Both programs are financed by the United States government.

THE INTERNATIONAL RESPONSE

On February 15, 1990, the Presidents of the United States, Bolivia, Peru and Colombia met in Cartagena, Colombia, to set policy for the drug war. They agreed "to implement or strengthen a comprehensive, intensified anti-narcotics program" to reduce both the supply of and the demand for illegal drugs.

On May 9, 1990, the United States and Bolivia signed an agreement that commits the Bolivian armed forces to fight the drug war. Under this agreement, $33.7 million in United States aid will be distributed in 1990 to eradicate drugs. In 1991 the drug-eradication and coca-substitution aid package is expected to total $95.8 million.[10]

Despite this massive infusion of money and manpower, no one can seriously claim that the war on drugs in Bolivia is being won. Bolivia eradicated between 6,500 and 8,000 hectares of coca leaves in late 1990, although it was scheduled to destroy only 6,000 hectares for the entire year. However, Bolivia produces between 50,000 and 100,000 hectares of coca, which means that at the present rate of destruction, it will take at least 6 to 12 years to eliminate Bolivia's existing coca crop—if no new production is undertaken. And the costs of relocating and compensating coca producers could be as much as $3.5 billion. The Bolivian peasant will most likely continue to produce coca as long as demand in the United States or in other developed countries remains high or until viable alternative cash crops are developed at home.

The battle against cocaine traffickers is making little progress. On December 10, 1989, Colonel Luis Arce Gómez, García Meza's minister of interior, was apprehended and extradited to the United States to face drug charges. He faced similar charges in the Bolivian courts. Erlán Echeverra, Arce Gómez's right-hand man, was recently abducted and extradited to the United States and has reportedly agreed to testify against his former boss. Meco Dominguez, one of Bolivia's top three drug traffickers, was also apprehended.

The arrests of these Bolivian druglords are only the tip of the iceberg. General García Meza still draws his military pension, and his case in the Bolivian Supreme Court drags on. Banzer has been neither arrested nor charged and remains the head of Bolivia's major political party and the recognized power behind President Paz Zamora.

Corruption is most evident in the banking system, where "cocaine stabilization" is the norm. Most Bolivian drug money is laundered in the international banking system, which includes United States and Panamanian banks. The largest private bank in Bolivia, the Santa Cruz Bank, has offices in Panama and Miami.

Drug launderers and their bankers, however, are not targets of the military in its brave new drug war. Drug money is withdrawn from Bolivian banks whenever the government takes action against the druglords or when they do not support or cannot control the government. This capital is repatriated when the druglords feel safe or when they support the government, which has been the case in Bolivia since 1985.

The drug money deposits and repatriation explain why Bolivia's currency and price levels have stabilized since 1985. This policy obviously serves the interests of the new illegitimate bourgeoisie and the "narco-generals" of Bolivia. It also apparently serves the United States national interest, inasmuch as money laundering has not only been tolerated by the United States but has, in fact, been encouraged. The latest program to privatize Bolivia's public enterprises is a case in point.

There is little doubt that much of the investment capital used by Bolivia's new entrepreneurs is drug money. Privatization will further legitimize cocaine profits and make respectable businesspeople of the

(Continued on page 90)

Melvin Burke has taught, researched and consulted extensively in many Latin American countries. His studies of Bolivia include *La Corporación Minera de Bolivia (Comibol) and the Triangular Plan: A Case Study in Dependency,* Latin American Issues, no. 4 (Meadville, Penn.: Allegeny College and University of Akron, 1987), and "The Stabilization Programs of the International Monetary Fund: The Case of Bolivia," *Marxist Perspectives,* vol. 2, no. 2 (Summer, 1979).

[10]"Bolivia Seeks U.S. Aid to Strengthen Its Economy," *Christian Science Monitor,* February 15, 1990, p. 3.

"As Colombia moves into the 1990's, its long travail with violence—whether spurred by narcotraffickers, guerrillas, military and police, or right-wing death squads—has by no means ended. At the same time, the traditional two-party hegemony, while weakened, has not shaken the hold of traditional political elites."

Colombia at the Crossroads

BY JOHN D. MARTZ
Professor of Political Science, Pennsylvania State University

UNDER a chilly Bogotá sky, César Gaviria Trujillo took the oath as President of Colombia on August 7, 1990. The youngest chief executive in the nation's history, the 43-year-old Gaviria entered office with an 89 percent approval rate in the polls. There were hopes that his vigorous and youthful leadership would provide a positive contrast to the laconic and uncommunicative style of his predecessor, Virgilio Barco Vargas. At the same time, Gaviria assumed power when his country was approaching a historic crossroad after more than a decade of accumulating problems.

On the political front, the long-standing two-party monopoly of government had been progressively weakened by clientelism and corruption. The Conservative party faced an internal crisis; new parties with uncertain goals were entering the political arena, and Gaviria himself had been elected by only a minority of eligible voters. Popular demands for institutional reforms and democratization were on the rise, and the actions of the Constituent Assembly that was elected in December, 1990, were unpredictable.

Meanwhile, the war over the drug industry dragged on. One of the periodic truces between the drug cartels and the government early in 1990 had broken down, had been reestablished and had then again been dissolved. The murder of the third presidential candidate on April 26—barely a month before the national elections—highlighted the level of violence. Neither Barco nor Gaviria could blame the drug barons for all the violence; government troops and unofficial right-wing death squads (which are euphemistically called self-defense groups) continued to play a part.

Although there were indications that the Medellín drug cartel in particular was suffering from the government campaign against it, the incoming President faced a variety of policy questions concerning drugs and drug-related violence—most notably, the question of extraditing suspected drug-lords to the United States. Attitudes critical of the United States for what was perceived as an unwillingness to mount a serious attack against drugs inside its own borders were exacerbated when Washington, D.C., Mayor Marion Barry was exonerated of serious charges against his own use and abuse of cocaine.

Endemic violence also constituted a problem extending far beyond the drug war itself. According to police statistics, the number of murders had increased from 15,137 in 1986 to 22,768 in 1989.[1] The Jesuit Centro de Investigación y Educación Popular (CINEP, the People's Center for Research and Education) reported that in 1989 alone, 7,246 deaths had resulted from social and political violence.[2] The rivalry between the armed forces and the police had further complicated government efforts to control the violence. And the nation's judicial system had virtually collapsed. Almost three dozen judges had been assassinated during the Barco years, and the backlog of cases in 1989 was estimated at more than 300,000.

Economic conditions were also disheartening. The rate of growth had fallen from more than 5 percent in 1987 to 3.7 percent in 1988, and by 1990 the growth rate was estimated at 3.1 percent. The cost of the drug war was taking its toll; in the first four months of 1990, the amount of foreign investment was less than half the figure for the same period in 1989. The annual inflation rate of 28 percent, although low by Latin American standards, was high for Colombians. The foreign debt had reached $16 billion, with the rate of export growth slowing. The decline in coffee prices that had followed the collapse of the international coffee cartel continued to cost the nation's export earnings dearly; guerrilla attacks on oil pipelines were also costly.

During the campaign, Gaviria had presented only a pedestrian and familiar diagnostic agenda. In his inaugural address, however, the new President was more explicit, centering attention on three fundamental issues: peace, the modernization of institutions and the internationalization of the economy.

Gaviria was direct, in contrast to Barco, who had

[1]Stan Yarbro, "Barco Leaves Nation Mixed Legacy," *Christian Science Monitor,* August 3, 1990.

[2]Charles Vanhecke, "New Management Takes Charge," *Manchester Guardian,* August 19, 1990.

often been puzzlingly cryptic. The new President's quest for peace was to be pursued along four fronts: guerrillas, narcoterrorists, self-defense groups and paramilitary forces. Gaviria was committed to dialogue, a demobilization of armed organizations, a continued campaign against narcoterrorist and self-defense squadrons, and justice for those who submitted to the authority of the state. He drew a contrast between drug trafficking and narcoterrorism, accepting extradition as valid but placing greater emphasis on improving the justice system. He urged the international community to tighten controls on all aspects of the drug industry.

The President viewed Colombian democracy as flawed and demanded the creation of a truly participatory system. Institutional modernization had to be achieved if the nation were to internationalize its economy. He advocated opening the economy to foreign investors, offering new incentives for exports and privatizing state enterprises. Gaviria promised to work closely with his economic team in developing what some called a "New Right" approach to national problems. At the same time, the national problems that faced Colombia in the closing decade of the century will require far more than economic revitalization alone.

THE CHALLENGE OF *APERTURA*

Gaviria's candidacy and his election were testimony to the pressures for fresh leadership and change in the existing political system. A year before the vote, the Liberal party's obvious choice had been the reform-minded Luis Carlos Galán, who seemed sure to win the general elections. In August, 1989, however, he was cut down by an assassin's bullets at an outdoor rally. In the wake of the tragedy, *galanistas* promptly embraced Gaviria as their standard-bearer.

Although Gaviria had not been a confidant of the slain candidate, he had recently become Galán's campaign manager. The young economist, a former president of Congress who later served first as finance minister and then as interior minister for Barco, was clearly a rising Liberal star. Once tapped by the Galán forces, he faced the opposition of Hernando Durán Dussan and Ernesto Samper Pizano. The former, while he lacked Gaviria's popularity at the grass roots, was an old-line party leader backed by party *caciques* (regional bosses) who customarily delivered large blocs of votes. The latter was another member of the rising generation. An avowed reformer and the darling of the Liberal left, Pizano had himself been previously wounded at Bogotá's El Dorado Airport during the March 22 fatal attack on Bernardo Jaramillo Ossa, the Unión Patriótica (UP) candidate, whom he had been accompanying.

Before his murder, Galán had forced the party's old guard to agree that the congressional elections of March 11, 1990, would constitute a presidential primary. Previously, party bosses had made the choice at carefully controlled party conventions. After a contentious campaign, Gaviria prevailed, with 60 percent of the vote, followed by Samper, with 18.5 percent, and Durán, with 14.4 percent (three minor candidates divided the remainder). The victor told his followers that it was "a great and tragic moment, for the death of Galán was necessary for the triumph of his ideals." At the same time, Gaviria's party registered a decisive victory over the opposition Social Conservative party (PSC) by nearly two to one in congressional races and won 17 of the 22 departmental capitals, including Bogotá and Medellín.

The Liberal victory was also substantial at the local level; the Liberals captured 520 of 1,007 mayoralties. This was an increase of 17 seats; the Social Conservatives, divided between rival factions, won only 367 seats. On the left, UP's representation fell from 15 to 11 mayoral offices; the M-19–Alianza Democrática coalition, competing for the first time, won 3 offices. M-19 polled an unexpected 8 percent of the vote for mayor of Bogotá. The modest decline of the UP, which lost two seats in Congress, reflected in part the killing of more than 1,400 members in recent years, including 76 individuals in 1990 alone. Jaime Pardo Leal, its 1986 presidential candidate, had been gunned down in October, 1987. The toll became even higher when Jaramillo was killed at El Dorado.

As if this were not enough violence, on April 27, 1990, M-19's presidential candidate, Carlos Pizarro Leongómez, was fatally wounded aboard an Avianca flight to Cartagena. The killing of a third presidential candidate in less than a year stunned the nation and prompted a renewed government pledge to act against the violence, including the expansion of the Fuerza Elite, a newly organized special police force. The M-19 candidacy fell to Pizarro's successor, Antonio Navarro Wolff.

The traditional Liberal-Conservative hegemony had meanwhile been weakened further by internal division. Former President Misael Pastrana Borrero, firmly in command of the party apparatus, had engineered the nomination of former Foreign Minister Rodrigo Lloreda Caicedo. Pastrana's long-time rival, Alvaro Gómez Hurtado, who had been the party's nominee in both 1974 and 1986, established the dissident Movimiento de Salvación Nacional (MSN, Movement of National Salvation). Convinced that the Social Conservatives could shake their minority status only by reaching out to other elements, Gómez tried to outpoll Lloreda and gain primacy over Pastrana.

The final week of the campaign was marked by the murder of Federico Estrada Velez, Gaviria's campaign manager. Security measures were extensive, and much of the electioneering was restricted to television. Gaviria was expected to win, and interest was piqued by the concurrent vote on the proposed Constituent Assembly. Spurred by a dedicated group of university students, the Constituent Assembly had been symbolically approved by three million voters during the March elections. The Supreme Court subsequently recognized the legitimacy of a plebiscite on May 27. Run at the same time as the presidential race, this plebiscite offered voters a "yes or no" choice over an assembly empowered to reform the constitution. The leading candidates all promised to honor the results, and Gaviria argued that the assembly would be the most viable means of achieving an institutional *apertura,* a reformist opening.

THE ELECTIONS

Election day was relatively calm. Gaviria won as expected, although his 48 percent of the vote fell far short of Barco's huge margin four years earlier. More surprising was the third-place finish of M-19's Navarro, who won 12.7 percent with the M-19–Alianza Democrática coalition, marking a record high for the Colombian left. In addition, Gómez humbled Social Conservative regulars by winning 24 percent of the vote to 12.4 percent for Lloreda, who finished a distant fourth. Nearly 60 percent of the 18 million eligible voters abstained. Thus, despite Gaviria's comfortable victory, he received only 3 million votes. Almost 5 million Colombians (about 85 percent) voted for the Constituent Assembly.

In the wake of the elections, Gaviria announced that he intended to rule as "President of all Colombians," in contrast to Barco's party-based government. His first Cabinet was made up of seven Liberals, four Conservatives, one leftist from M-19 (presidential candidate Navarro) and the usual military officer in defense. Gaviria also sought a balance among Liberal appointees, several of whom were potential candidates for the presidency in 1994. These included Samper as minister of development, Julio César Sánchez as interior minister and Luis Fernando Jaramillo as foreign minister.

An innovative step with the potential for administrative confusion came with the naming of nine special advisers to Gaviria. They were to be responsible for evaluating divergent interests, reviewing conflicts among ministries and other government entities, and making recommendations to the President. Their fields of expertise included, among others, peace, defense and security, international affairs, institutional reform, constitutional reform and public administration. The advisers were for the most part young, relatively new to government, well trained in their respective areas of responsibility and free from restrictive political and bureaucratic ties. It remained to be seen whether they would sharpen and facilitate policymaking or, on the contrary, would blur administrative guidelines and create struggles over authority and bureaucratic turf.

After years of demands for *apertura,* Colombians found themselves with an administration firmly committed to initiating a new era. Political reforms had already been introduced during the 1980's, the most notable being the direct election of mayors. On March 13, 1988, Colombia had held its first mayoral elections in history, one in which the UP had participated despite extensive preelection intimidation.[3] President Barco subsequently called for structural changes; democratization would be stimulated by measures like the direct election of governors, the holding of referendums and a reform of provisions affecting the party system. He was unable to secure support from Congress, however, and left the fate of institutional *apertura* to the Constituent Assembly.

Until significant reforms are adopted, the traditional concentration of power will remain in the hands of party elites. As Latin American specialist Gary Hoskin has written,

> In view of the intensity of the debate surrounding political reform, change is virtually inevitable, but this does not necessarily indicate that the political system will be highly responsive.[4]

However, winds of change are blowing in Colombia, and Gaviria appears receptive to them.

DRUGS, VIOLENCE AND HUMAN RIGHTS

Despite long experience with violence in their daily lives, Colombians are increasingly frustrated by the accumulated toll of human rights violations. While the causes are complex, they tend to revolve around the flourishing drug industry and the guerrilla movements, exacerbated by the military, the police and the death squads. Guerrilla insurgency had been a fact of national life for a generation; yet by the beginning of the 1990's greater concern was being directed toward drug trafficking.

The Barco administration had employed varied approaches, alternating between harsh and conciliatory measures. Perhaps the Barco administra-

---

[3]For further details see John D. Martz, "Colombia's Search for Peace," *Current History,* vol. 88, no. 536 (March, 1989), pp. 145–146.

[4]Gary Hoskin, "Colombian Political Parties and Electoral Behavior During the Post-National Front Period," in Donald L. Herman, ed., *Democracy in Latin America; Colombia and Venezuela* (New York: Praeger Publishers, 1988), p. 61.

tion's most determined military effort was adopted in August, 1989, after the killing of Galán. The government achieved a major prize when an elite strike force ambushed and killed drug baron Gonzalo Rodríguez Gacha shortly before Christmas, 1989. In the meantime, Barco had paid a highly publicized visit to the United States, delivering a dramatic message to the United Nations and securing a pledge of increased aid from United States President George Bush. Back home, Colombians had at best mixed feelings about the prospect of a heightened United States role in Colombia's anti-drug campaign.

Colombians were further irritated in January, 1990, over news that the aircraft carrier U.S.S. *John F. Kennedy* had led a naval battle group into international waters off Colombia's Caribbean shore. The intended blockade of drug traffic led Barco to deny that he had been consulted, and on January 10 President Bush phoned his counterpart to promise that no United States action would be taken. Sensitivities were hardly soothed by such assurances, and the climate of bilateral relations was chilly as the Cartagena drug summit of February 15 drew closer. Meanwhile, a January 17 declaration by the so-called Extraditables (druglords wanted for extradition to the United States) promised to halt the five-month-long campaign of bombings and assassinations. Colombian opinion grew sympathetic to a possible relaxation of Barco's commitment to honor extradition when requested by Washington.

In fact, there was skepticism in both Colombia and the United States. A *Washington Post*–ABC poll the week before the Cartagena drug summit found that two-thirds of Colombian respondents suspected that the United States was "using the drug problem as a way to exercise control over the Colombian government." At the same time, people in the United States believed by a ratio of more than two to one that Colombia was losing the fight against drug traffickers. There was clear agreement among both sets of interviewees polled that the demand for drugs in the United States was the principal cause of the international drug problem.[5] Another presummit poll, conducted jointly for Bogotá's *El Tiempo* and *USA Today,* found that in the United States, 78 percent of the respondents believed Colombia was not doing enough, while 48.7 percent of Colombians blamed the United States for not doing enough.[6]

After Presidents Barco and Bush met with Peruvian President Alán García Pérez and Bolivian President Jaime Paz Zamora in Cartagena, they issued a vaguely worded communiqué that endorsed greater United States aid to the three South American countries. Barco presented a list of complaints to President Bush, noting that United States policies in other areas—including a threat to Colombia's $140-million export trade in cut flowers—more than offset the level of assistance for the war against the drug cartels. In the wake of the meeting, Colombia continued to pursue firm measures while signaling interest in moving toward a more flexible approach. This was an informal response to the drug dealers' offer of a unilateral truce and to individual actions, like the release of the kidnapped son of Barco's secretary general.

As national elections neared, the death of UP candidate Jaramillo and the M-19 candidate, Pizarro, clouded the situation. Druglord Pablo Escobar denied any involvement in the killings, and sociologist Eduardo Pizarro, the brother of the slain M-19 candidate, argued that security forces were as likely as drug traffickers to have carried out the murders. Whatever the ultimate identity of the assassins, drug-related violence continued. And at the end of March, 1990, an official communiqué from the Extraditables announced their resumption of a war of terrorism in retaliation for the continuing extraditions.

Renewed threats against Colombian judges extended the campaign of intimidation that had seriously hampered government efforts for years. National opinion was also divided over policy toward the druglords. When a car bomb explosion near Medellín killed 20 people and wounded 100 in mid-April, the mayor of Medellín was moved to propose negotiations with the Extraditables. Further violence continued until the Gaviria election on May 27. Three car bombs killed 26 people and injured 178 in Cali, and 17 died as a result of similar bombings in Bogotá shopping centers. The draconian measures Barco adopted after the killing of Galán were questioned. Many Colombians viewed Barco's rejection of negotiation, despite his January remark about a "flexible" approach to the fight against drugs, as the cause of an unacceptably high level of violence.

While Gaviria had been viewed as a supporter of Barco's position, in his postelection victory speech he suggested a more versatile policy approach, terming extradition only one of several tools. He pledged preferential treatment for drug dealers who

(Continued on page 80)

John D. Martz is the author or editor of 17 books and many articles on Latin America. His current research concentrates on a comparative political analysis of Colombia, Ecuador and Venezuela. He is the editor of the journal *Studies in Comparative International Development.*

[5] *Washington Post,* February 9, 1990.
[6] *Miami Herald,* February 11, 1990.

"Collor's strategy of liquidating inflation should succeed if the current policy is kept in place. But without adjusting this policy, Brazil will enter 1991 with the prospects of a deep recession and social unrest."

Brazil's Catatonic Lambada

BY EUL-SOO PANG
Director, Department of Global Systems and Cultures, Colorado School of Mines
and
LAURA JARNAGIN
Assistant Professor of History and Latin American Studies, Colorado School of Mines

THE economic reform measures introduced by President Fernando Collor de Mello since he took office in March, 1990, have been like the seductive movements of the lambada. The structure and implementation of these measures, however, have been confusing and schizophrenic, evoking excitement among the masses and disappointment among the elites.

The private sector wonders when the government will loosen its tight monetary policy and relax its highly centralized economic decision making, which is firmly under the control of the minister of economy and the president of Brazil's Central Bank. Those in charge of state-owned enterprises (SOE's) wonder when they will be called on to reduce operational costs further or prepare for divestiture. Commercial creditors wonder when Collor will match his rhetoric advocating private initiative and the introduction of a market economy with the practice of honoring debt obligations.

Brazil must move away from this political and economic catatonia if Collor's plan is to work. The President's ambitious agenda calls for dismantling the interventionist state, bringing back more governance by law, reviving the free market economy by winnowing state capitalism, and promoting social policy to improve the quality of life for the poor and the underclass.

The seeming contradiction in Collor's program lies in the public image that the government cultivates and relishes: that it is reformist; aggressively pursuing civil society's modernization; eager to inject the economic system with strong doses of market discipline; and not hostile to organized labor but not overtly sympathetic to big business. But the way reforms have been introduced and implemented smacks of authoritarianism. Reforms have been carried out without democratic participation or consultation with key political *caciques* (regional bosses) and their minions in Congress. The public sees Collor as a constitutionally elected imperial President.

The December, 1989, election of the 40-year-old Collor followed the breakdown of the traditional political process and popular dissatisfaction with the socioeconomic chaos under President José Sarney's rule. Collor and his Workers party opponent, Luis Inácio Lula da Silva (popularly known as Lula), could not have been more different. Collor, the scion of an oligarchical clan from the northeastern state of Alagoas, built his political career as a conservative, reform-minded governor. Lula, a migrant worker from the northeast who settled in São Paulo, the industrial heartland of Brazil, has been a militant leftist labor activist since the 1970's.

During the campaign, Collor called for administrative, fiscal and monetary reforms that would overhaul the Brazilian economy. He also promised to sell the SOE's, reduce spending and personnel, and bring inflation under control. Lula's platform was completely different. He vowed to oppose all privatization, expand state intervention in the economy and social entitlement programs, and reform government subsidy programs. Collor said he would renegotiate Brazil's foreign debt, but would not make sacrifices that would interfere with economic growth. Lula proposed to suspend all interest and principal payments on the foreign debt, investigate the legitimacy of loan contracts and work to establish a Latin American debtors' cartel.

As elections neared, polls showed Lula losing support. The largest political party, the Brazilian Democratic Movement (PMDB), decided to support Lula after the party's septuagenarian president, Ulysses Guimarães, decided that the conservative Collor had to be stopped at all costs. In spite of the left's last-minute attempt to stitch together electoral support for Lula, Collor won the election with 53 percent of the vote.

THE COLLOR PLAN

In his inaugural speech, Collor said he intended

not only to "liquidate inflation" but also to introduce revolutionary changes. This was a tall order, with inflation running at a rate of 80 percent per month, or more than 2,700 percent annually. To carry out this task, Collor introduced a stabilization plan known as the Plano Brasil Novo, one of the most daring and sweeping reform programs that has been put into effect in Brazil since 1930.

Collor's stabilization program, which Congress endorsed with a few minor changes by mid-April, 1990, consists of two broad reform packages. The economic package contains fiscal, monetary and tax reforms; foreign trade liberalization; the introduction of a new currency; foreign exchange market reform; price rollbacks to the level of March 12, 1990; and renegotiation with Brazil's commercial creditors. The administrative reform package includes the restructuring of ministries; the reduction of the federal civil service; the divestiture of federal SOE's through debt-equity swaps;* and the withdrawal of perquisites for high-ranking functionaries through the sale of mansions, apartments and limousines, and the elimination of maid and gardener services, food subsidies and funds for social activities.

Although there are several components in the economic package, its central objective is to liquidate the monthly inflation rate of 80 percent by withdrawing excess money from circulation. To accomplish this, Collor's economic advisers simply froze the checking and savings accounts of Brazilians. All these accounts have been placed under the control of the Central Bank for 18 months at 6 percent annual interest. After September, 1991, account holders may withdraw funds in small amounts.

Tax reform was also enacted. Tax rates were increased, the tax base was expanded, and there was a crackdown on tax evasion. The expansion of the tax base was accomplished by levying taxes on capital gains from stocks and bonds, on interest income from savings, on the sale of gold and on real estate earnings. A new 30 percent tax was levied on all value-added exports as well as services.

A third part of the economic package included currency reform. The cruzado novo, the third currency introduced by the Sarney government, was replaced by the cruzeiro at a value of 1:1 to the old money. Within days, the value of the cruzeiro rose threefold on the black market. The government also ordered a mandatory rollback of prices to the level of March 12, 1990, hoping to increase the purchasing power of low-income families. The salaries of these families were adjusted to approximately 72 percent of the official February inflation rate, although the March rate was barely 40 percent. The result was a real wage increase of 23 percent.[1]

The government then raised public service rates; telephone service, electricity, postage, gasoline and public transportation rates went up between 32 and 72 percent. Tax havens (except the Manaus free port) and many subsidies were abolished. Finally the government allowed all foreign exchange rates to float, discarding the centrally fixed rates that the government had used as an economic and political instrument since 1945. Daily demand would set the value of the dollar, although to dampen speculation and restrain the value of the dollar, the Central Bank still buys and sells the dollar and, on occasion, gold.

ADMINISTRATIVE REFORM

When Sarney took office in 1985, the total number of government employees was 560,000, excluding those working in SOE's. When he left five years later, the total had increased by 140,000 and cost $21 billion a year in salaries (which was equivalent to 2 percent of the gross domestic product). One of Collor's first acts was to lay off government officials. He hopes to reduce further the federal bureaucracy by a total of 300,000 and to reduce its spending radically. By the end of December, 1990, the government had fired or retired 220,000 bureaucrats. That same month, Collor began to sell most of the 188 federal SOE's.[2] The government will continue to operate approximately 30 SOE's in the energy field, telecommunications, transportation and mineral resources, and hopes to receive as much as $14.5 billion from the sale of the other SOE's.[3]

To oversee the sale of federal SOE's, the President established the National Commission of Denationalization. The commission is chaired by the

---

*Editor's note: Debt for equity swaps, or debt swaps, are one of the innovative financial instruments that debtor countries like Brazil have taken advantage of to reduce their foreign debt. In return for the lender reducing a loan's original value, the debtor country permits lenders to acquire assets, reissued bonds, local currency or other equity in the country's publicly owned enterprises.

[1]Banco Central do Brasil, *Brasil: Programa Econômico Março de 1990* (Brasília: BCB, 1990), p. 24; *Veja,* March 28, 1990; Luiz Carlos Bresser Pereira, "As incertezas do Plano Collor," in *Plano Collor: avaliações e perspectivas,* Clovis de Faro, ed. (Rio de Janeiro: Livros Técnicos e Científicos Editora, 1990), pp. 91–92.

[2]Presidência da República, Seplan, Sest, *Relatório das empresas estatais—1989: ano-base 1988* (Brasília: Seplan/Sest, 1989), pp. 7–8, gives the figures of 175 SOE's at the end of 1988; another figure of 230 SOE's is given, counting subsidiaries in: PR/Seplan/Sest, *Perfil das empresas estatais—1989; ano-base 1988* (Brasília: Seplan/Sest, 1989), p. 11.

[3]For details on the financing of the SOE sales, see Medida Provisória, no. 157, March 15, 1990; "Dispõe sobre criação de Certificados de Privatização e dá outras providências"; *Istoé/Senhor,* June 6, 1990; *Gazeta Mercantil,* May 26, 1990.

president of the National Economic and Social Development Bank (BNDES). The commission establishes and revises basic rules for privatization and sets the limits on the number of shares individuals and corporations may hold. A foreign investor is limited to 35 percent of the total holding of an SOE if debt-equity swap money is used. Another 35 percent of the SOE's shares are reserved for Brazilian individual investors; each investor may hold up to 5 percent of the total shares; and, finally, 30 percent of the remaining stocks must be sold to workers and clerical employees of the SOE.

By the end of 1992, Brazil intends to privatize 92 parastatals, valued at $17 billion. In the future, ports, roads and large areas of government-owned land will also be for sale. The privatization of Portobrás, the port authority, could bring in an additional $35 billion. The BNDES has taken the lead in making financial arrangements and has contracted two private consulting firms to assess the value of the SOE's.[4]

Administrative reform also included a reorganization of the Cabinet. During the Sarney administration, the Cabinet had at one point 27 ministries—6 of which were armed forces portfolios. Collor reorganized the Cabinet into 12 ministries and 9 secretariats, which does not include the secretariat general and the press office of the Planalto Palace (the Brazilian White House). To show his willingness to stand up to the military, Collor dropped the status of the Joint Chiefs of the Armed Forces from a ministry to a secretariat. The infamous National Intelligence Service lost its ministerial status and is to be abolished.

The largest new ministry in the reorganized Cabinet is Infrastructure, which is made up of the former ministries of Industry and Commerce, Communications, and Mines and Energy. Infrastructure receives more than 60 percent of the entire executive budget. Ozires Silva, the founder and former president of Brazil's Embraer (an aircraft manufacturing parastatal belonging to the air force) and of Petrobrás (the state-owned petroleum company), was named the head of this imposing ministry. The former Ministry of Finance and the Secretariat of Planning were merged into the Ministry of Economy, Finance and Planning. Zélia Cardoso de Mello, a former member of a leftist party and professor of economics at the University of São Paulo, was named to head the ministry; she is the first woman in Brazil's history to hold that key Cabinet position.

THE OCTOBER, 1990, ELECTIONS

Remarkably, no politician of national stature (except Leonel Brizola, the perennial gadfly of all governments) ran his campaign by criticizing the Collor plan. In fact, the election results showed clear support for Collor's reforms. When Collor took office, the PMDB, the largest party in Congress, was openly hostile to the President and his policies. At most, the President could count on 40 percent of the deputies and senators to vote for his programs. The October election increased the number of Liberal Front party (PFL) and PMDB deputies and senators. The PFL representatives side solidly with the government, while a large chunk of PMDB legislators support Collor on many issues. The Brazilian Social Democratic party (PSDB), which is sympathetic to some of Collor's programs, also supports the President. This gives Collor a majority in Congress.

Collor's power base was further strengthened when Minister of Justice Bernardo Cabral dropped out of the Cabinet—though not by choice. Since the start of the Collor administration, the petulant Cabral had managed to alienate Economy Minister Zélia Cardoso's staff, big business and organized labor. It may never be known whether Cabral's swift departure in mid-October was brought about by scandalously clever design or by pure dumb luck. Whatever the cause, the story received international media attention.

Cabral's undoing was his affair with Cardoso. Cabral, who was in his late fifties and had been married for 35 years, attended her thirty-seventh birthday party in late September without his wife. None of the 100 invited guests, including members of the press, failed to notice that the two of them danced only with each other. It was later learned that Cabral had taken a trip to New York that coincided with Cardoso's presence there and that Cabral's second apartment in Brasília was literally next door to hers.

Collor demanded Cabral's resignation, saying that Brazil could not tolerate a minister of justice who engaged in moral laxity. Collor quickly appointed a new minister of justice—Jarbas Passarinho, a 70-year-old, right-wing army colonel. Cardoso's role in the government, on the other hand, was never in question. In fact, she emerged from the incident as an unchallenged power among the ministers.

(Continued on page 85)

Eul-Soo Pang is the director of the department of international development and policy studies at the Colorado School of Mines. He is completing a book on the role of state-owned enterprises in development, focusing on Argentina, Brazil and Chile. **Laura Jarnagin** is currently researching the historical and contemporary role of the state in Latin America and global environmental problems.

[4] *Visão,* August 8, 1990; *O Globo,* August 21, 1990.

BOOK REVIEWS

ON LATIN AMERICA
by Linda Greenow
State University of New York, New Paltz

UNITED STATES POLICIES AND THE LATIN AMERICAN ECONOMIES. *Edited by Werner Baer and Donald V. Coes.* (New York: Praeger Publishers, 1990. 198 pages, tables, notes, bibliography and index, $42.95.)

This collection of papers is based on the premise that the United States has not had a cohesive policy toward Latin America for nearly three decades. The papers focus on the contradiction between the goals and consequences of United States economic policy in Latin America in the 1980's, a period when issues like privatization, debt servicing and financial liberalization became urgent and complex.

Three papers discuss the difficulties of balancing debt repayment and economic growth. Beckerman offers a model of an indebted nation and its choices in encouraging capital formation while reducing external debt, a sobering picture for developing countries both in and outside of Latin America. Felix and Caskey describe several aspects of United States economic policy — financial liberalization, discouragement of additional credit, and proposals like the Baker plan to reduce imports — that in the end discourage long-term growth and its benefits. Baer and Coes raise the question of whether businesses in the United States would accept the heightened competition that would occur if exports from Latin American countries were to increase.

Papers by Glade and by Birch examine the actual performance of public and private sectors, using Brazil, Mexico, Chile and Argentina as case studies. Together, these papers indicate that privatization strategies must be carefully crafted to identify and take advantage of the strengths of public enterprises.

The relationship between United States policies and Latin American labor, financial markets and attempts at economic integration are the topics of the remaining papers. Smith describes some of the broad changes in Latin American labor in the 1980's, and argues that the United States indirectly influences these trends by supporting democracy, by including workers' rights clauses in trade deals, and by supporting international organizations. Welch describes the development of financial liberalization policies in Latin America in the 1960's and 1970's, a period of massive capital inflows through loans from abroad. He explains the problems of continuing liberalization in the present era of external debt. As he points out, United States economic policy encourages both reduction of debt and continued progress in liberalizing financial markets, goals that Welch sees as incompatible. Finally, Primo Braga highlights the trend toward bilateralism in United States trade agreements, spelling out a difficult future for economic integration, regarded by some observers as an important solution for many Latin American countries' economic problems. Students of economic policy will find much of interest in this collection.

U.S. HEGEMONY UNDER SIEGE: CLASS, POLITICS AND DEVELOPMENT IN LATIN AMERICA. *By James Petras and Morris Morley.* (London: Verso, 1990. 224 pages, tables, notes and index, $45.00, cloth; $15.95, paper.)

THE ORDEAL OF HEGEMONY: THE UNITED STATES AND LATIN AMERICA. *By Guy Poitras.* (Boulder, Col.: Westview Press, 1990. 245 pages, tables, notes, bibliography and index, $29.95.)

One of the burning issues of the late 1980's and early 1990's is the position of the United States in world affairs and in Latin America. These two recent books examine this subject. Both volumes consider the breakdown of the redemocratization process, the increase in class struggle and social movements, and the revival of the left as important components in the changing relationship between the United States and Latin America. Although both books acknowledge a school of critics who believe the position of the United States has not and will not change significantly, the authors proceed to describe and explain the breakdown of United States power in Latin America.

James Petras and Morris Morley analyze the current turmoil in Latin American politics as a consequence of the failure of past development policies. They argue that the balance of political power within Latin American countries has shifted. In the face of transition, it is difficult for the United States to maintain its influence in the region; at the same time, the violence accompanying these shifts in Latin America has made it increasingly important for the United States to succeed. Case studies of Argentina and Chile provide detailed analyses, although many countries are discussed more briefly.

Guy Poitras takes a somewhat wider view of the issue by placing the decline of the position of the United States in the context of changing relations among all the states of the Western Hemisphere. Using the theory of hegemonic stability, he questions whether instability in Latin America has altered its relationship with the United States, or whether the decline of the United States in general has helped cause instability in Latin America. Central America offers the geographic focus for some of his discussion.

THE CRISIS OF ARGENTINE CAPITALISM. *By Paul H. Lewis.* (Chapel Hill, N.C.: University of North Carolina Press, 1990. 574 pages, tables, notes and index, $49.95.)

Argentina has long held what Paul Lewis calls a "morbid fascination" for scholars because of its seeming inability to fulfill the potential it exhibited earlier in this century. In a thorough and detailed analysis, Lewis explores the many explanations for Argentina's recent economic and political stagnation, covering the period from the turn of the century to the middle of Raúl Alfonsín's administration.

Six schools of thought on this subject are described in detail. The oligarchy's inability to accept change, the military's defense of traditional institutions and policies, and foreign capitalists' expropriation of Argentine wealth are discussed. Lewis demonstrates that any single explanation for Argentina's problems is unrealistic, and that all overlook a major influence in the country's national political economy: the role of pressure groups, particularly business groups, in shaping economic and political practice. This readable analysis should interest specialists of Argentine history and other Latin Americanists alike.

LATIN AMERICA THROUGH SOVIET EYES: THE EVOLUTION OF SOVIET PERCEPTIONS DURING THE BREZHNEV ERA 1964-1982. *By Ilya Prizel.* (Cambridge: Cambridge University Press, 1990. 228 pages, notes, bibliography and index, $44.50.)

Using a variety of sources, but relying particularly on Soviet academic journals, Prizel traces the development of Soviet perceptions of Latin America's role in the world and its social structures. Soviet-Latin American relations are studied in a series of case studies of Mexico, Brazil, Argentina and Chile.

The author's goal is to determine what shifts, if any, occurred in Soviet policy toward Latin America during the Leonid Brezhnev era. As the author points out, understanding Soviet policy requires studying the perceptions of Soviet scholars and journalists with a knowledge of Latin America. These few experts have had an inordinate influence on Soviet thinking.

Prizel describes the subtle shifts in Soviet thinking during the Brezhnev years, emphasizing the caution and skepticism with which Soviet scholars greeted Latin America's widening economic links, its growing relationship with other third world countries, and its attempts at economic integration. Soviet academicians were baffled by the rift that appeared between conservative and liberal elements of the Roman Catholic Church, by the emergence of leftist military regimes, and by the complexities of reformist political parties.

PROGRESS TOWARD DEVELOPMENT IN LATIN AMERICA: FROM PREBISCH TO TECHNOLOGICAL AUTONOMY. *Edited by James L. Dietz and Dilmus D. James.* (Boulder, Col.: Lynne Rienner Publishers, 1990. 232 pages, tables, notes, references and index, $32.50.)

In this collection, the authors—all economists—share a vision of a new paradigm called neostructuralism, the amalgamation of the successful components of structuralist and neoliberal economic theory that the authors believe can reinvigorate the process of development. This volume is dedicated to the memory of James Street, whose work was framed by the debate between institutionalist and structuralist economic theories, so it is fitting that these essays attempt to reconcile the best of both schools of thought.

The first chapter outlines the development of neoliberal economic theory and points out that its resurgence in Latin America in the 1970's was intertwined with the debt crisis, a growing awareness of the issues involved in technology transfer, and the economic disasters of the 1980's. The three papers that follow this introduction evaluate the structuralist approach to development. In particular, they focus on the need to build on accomplishments of import substitution, the differences and similarities between structuralist and institutionalist thinking, and the agenda for future neostructuralist policies.

Among the issues discussed are the need for financial reform in solving the problems of debt and financial instability, and the potential role of the International Monetary Fund. Weaknesses in Argentina's approach to development through the growth of export industries is also explored. Finally, Mexico's problems with improving its agricultural sector are examined in an institutionalist perspective. ■

WORLD DOCUMENTS

Charter of Paris for a New Europe

On November 21, 1990, in Paris, the Charter of Paris for a New Europe was signed at the conclusion of the summit meeting of the Conference on Security and Cooperation in Europe. The charter marks the first time in history that Europe, the United States and Canada have agreed to adopt the same values concerning human rights, political freedoms and economic development. Excerpts follow, as transcribed by The New York Times.

We, the heads of state or government of the states participating in the Conference on Security and Cooperation in Europe [C.S.C.E.], have assembled in Paris at a time of profound change and historic expectations. The era of confrontation and division of Europe has ended. We declare that henceforth our relations will be founded on respect and cooperation.

• • •

Ours is a time for fulfilling the hopes and expectations our peoples have cherished for decades: steadfast commitment to democracy based on human rights and fundamental freedoms; prosperity through economic liberty and social justice; and equal security for all our countries. . . .

We undertake to build, consolidate and strengthen democracy as the only system of government of our nations. . . .

FUNDAMENTAL FREEDOMS

Human rights and fundamental freedoms are the birthright of all human beings, are inalienable and are guaranteed by law. . . .

Democratic government is based on the will of the people, expressed regularly through free and fair elections. . . .

Democracy, with its representative and pluralist character, entails accountability to the electorate, the obligation of public authorities to comply with the law and justice administered impartially. No one will be above the law.

We affirm that, without discrimination, every individual has the right to:

- Freedom of thought, conscience and religion or belief,
- Freedom of expression,
- Freedom of association and peaceful assembly,
- Freedom of movement.

No one will be:

- Subject to arbitrary arrest or detention,
- Subject to torture or other cruel, inhuman or degrading treatment or punishment.

Everyone also has the right:

- To know and act upon his rights,
- To participate in free and fair elections,
- To fair and public trial if charged with an offense,
- To own property . . . and to exercise individual enterprise,
- To enjoy his economic, social and cultural rights.

We affirm that the ethnic, cultural, linguistic and religious identity of national minorities will be protected. . . .

ECONOMIC LIBERTY

Economic liberty, social justice and environmental responsibility are indispensable for prosperity.

The free will of the individual, exercised in democracy and protected by the rule of law, forms the necessary basis for successful economic and social development. We will promote economic activity which respects and upholds human dignity. . . .

• • •

FRIENDLY RELATIONS

In accordance with our obligations under the Charter of the United Nations and commitments under the Helsinki final act, we renew our pledge to refrain from the threat or use of force against the territorial integrity or political independence of any state. . . .

With the ending of the division of Europe, we will strive for a new quality in our security relations while fully respecting each other's freedom of choice in that respect.

• • •

The unprecedented reduction in armed forces resulting from the Treaty on Conventional Armed Forces in Europe, together with new approaches to security and cooperation within the C.S.C.E. process, will lead to a new perception of security in Europe and a new dimension in our relations. In this context, we fully recognize the freedom of states to choose their own security arrangements.

• • •

GUIDELINES FOR FUTURE

Determined to foster the rich contribution of national minorities to the life of our societies, we undertake further to improve their situation. . . . We express our determination to combat all forms of racial and ethnic hatred, anti-Semitism, xenophobia and discrimination against anyone as well as persecution on religious and ideological grounds. . . .

We call for the earliest possible conclusion of [a] Convention on an effectively verifiable, global and comprehensive ban on chemical weapons, and we intend to be original signatories to it.

• • •

We unreservedly condemn, as criminal, all acts, methods and practices of terrorism and express our determination for the environmental eradication both bilaterally and through multilateral cooperation. We will also join together in combatting illicit trafficking in drugs.

• • •

We stress that economic cooperation based on market economy constitutes an essential element of our relations and will be instrumental in the construction of a prosperous and united Europe. . . . We underline that cooperation in the economic field, science and technology is now an important pillar of the C.S.C.E. . . . We reaffirm the need to continue to support democratic countries in transition towards the establishment of market economy and the creation of the basis for self-sustained economic and social growth. . . . Cooperation in the field of science and technology . . . must evolve towards a greater sharing of appropriate scientific and technological information and knowledge with a view to overcoming the technological gap which exists among the participating states.

• • •

We pledge to intensify our endeavors to protect and improve our environment in order to restore and maintain a sound ecological balance in air, water and soil. . . . ■

United Nations Security Council Resolutions On the Persian Gulf Crisis

The United Nations Security Council has acted with unparalleled unanimity in addressing the crisis in the Persian Gulf caused by Iraq's invasion of Kuwait on August 2, 1990. The Security Council has passed several resolutions that have condemned the invasion, imposed an economic embargo on Iraq, and permitted the use of force to remove Iraqi troops from Kuwait. Excerpts from four of the resolutions follow.

RESOLUTION 661 (August 6, 1990)

The Security Council, . . .

Affirming the inherent right of individual or collective self-defence, in response to the armed attack by Iraq against Kuwait, in accordance with Article 51 of the Charter,

Acting under Chapter VII of the Charter of the United Nations,

1. Determines that Iraq so far has failed to comply with paragraph 2 of resolution 660 (1990) and has usurped the authority of the legitimate Government of Kuwait;

2. Decides, as a consequence, to take the following measures to secure compliance of Iraq with paragraph 2 of resolution 660 (1990) and to restore the authority of the legitimate Government of Kuwait;

3. Decides that all States shall prevent:

(a) The import into their territories of all commodities and products originating in Iraq or Kuwait exported therefrom after the date of the present resolution;

(b) Any activities by their nationals or in their territories which would promote or are calculated to promote the export or trans-shipment of any commodities or products from Iraq or Kuwait. . . ;

(c) The sale or supply by their nationals or from their territories or using their flag vessels of any commodities or products, including weapons or any other military equipment, . . . to any person or body in Iraq or Kuwait . . . and any activities . . . which promote . . . such sale or supply of such commodities or products;

4. Decides that all States shall not make available to the Government of Iraq or to any commercial, industrial or public utility undertaking in Iraq or Kuwait, any funds or any other economic resources and shall prevent their nationals . . . from removing from their territories or otherwise making available to that Government . . . any such funds . . . except payments exclusively for strictly medical or humanitarian purposes . . . ;

• • •

9. Decides that, notwithstanding paragraphs 4 through 8 above, nothing in the present resolution shall prohibit assistance to the legitimate Government of Kuwait, and calls upon all States:

(a) To take appropriate measures to protect assets of the legitimate Government of Kuwait and its agencies;

(b) Not to recognize any regime set up by the occupying Power;

• • •

RESOLUTION 670 (September 25, 1990)

The Security Council,

Reaffirming its resolutions 660 (1990), 661 (1990), 662 (1990), 664 (1990), 665 (1990), 666 (1990), and 667 (1990),

Condemning Iraq's continued occupation of Kuwait, its failure to rescind its actions and end its purported annexation and its holding of third State nationals against their will, in flagrant violation of resolutions 660 (1990), 662 (1990), 664 (1990) and 667 (1990) and of international humanitarian law,

Condemning further the treatment by Iraqi forces of Kuwaiti nationals, including measures to force them to leave their own country and mistreatment of persons and property in Kuwait in violation of international law. ,

Acting under Chapter VII of the Charter of the United Nations, . . .

2. Confirms that resolution 661 (1990) applies to all means of transport, including aircraft;

3. Decides that all States . . . shall deny permission to any aircraft to take off from their territory if the aircraft would carry any cargo to or from Iraq or Kuwait other than food in humanitarian circumstances. . . . ;

4. Decides further that all States shall deny permission to any aircraft destined to land in Iraq or Kuwait, whatever its State of registration, to overfly its territory . . . ;

5. Decides that each State shall take all necessary measures to ensure that any aircraft registered in its territory or operated by an operator who has his principal place of business or permanent residence in its territory complies with the provisions of resolution 661 (1990) and the present resolution;

• • •

7. Calls upon all States to co-operate in taking such measures as may be necessary, consistent with international law, including the Chicago Convention, to ensure the effective implementation of the provisions of resolution 661 (1990) or the present resolution;

8. Calls upon all States to detain any ships of Iraqi registry which enter their ports and which are being or have been used in violation of resolution 661 (1990), or to deny such ships entrance to their ports except in circumstances recognized under international law as necessary to safeguard human life;

• • •

12. Decides to consider, in the event of evasion of the provisions of resolution 661 (1990) or of the present resolution by a State or its nationals or through its territory, measures directed at the State in question to prevent such evasion;

• • •

RESOLUTION 674 (October 29, 1990)

The Security Council, . . .

Stressing the urgent need for the immediate and unconditional withdrawal of all Iraqi forces from Kuwait, for the restoration of Kuwait's sovereignty, independence and territorial integrity and of the authority of its legitimate government, . . .

• • •

Reaffirming the goal of the international community of maintaining international peace and security by seeking to resolve international disputes and conflicts through peaceful means, . . .

1. Demands that the Iraqi authorities and occupying forces

(Continued on page 90)

COLOMBIA

(Continued from page 72)

turned themselves in to Colombian authorities. If they surrendered, their cases would be tried in domestic rather than foreign courts. Gaviria explicitly drew a distinction between drug trafficking and drug violence (narcoterrorism), identifying a halt to violence as the highest priority. Among his proposals was the greater coordination and centralization of the army, intelligence and police.

Violence associated with the drug industry seemed unaffected by the elections. Late in June, gunmen executed 19 people outside a nightclub near Medellín, and this was followed within a week by a car bomb that exploded next to a police station in the city, killing or wounding more than 36 people. By early July, 157 police officers had been killed in Medellín in 1990. Meanwhile, the Barco government extradited two Colombians to the United States in early July and another later that month. Cocaine baron Escobar was also on the run, having narrowly escaped capture for the third time in six months.

Before his election, Gaviria had held an extended discussion in Washington, D.C., with President Bush. He told the President that military involvement in the anti-narcotics campaign should be limited to the short term. Speaking with reporters after his meeting with President Bush, Gaviria said that the engine of trafficking remained the demand for drugs.

> It doesn't matter how much we work against the trafficking of drugs, how many lives we lose. It doesn't matter how great our effort, the problem will be there. The United States and [other] industrialized countries need a way to reduce the consumption of drugs.[7]

He also remarked pointedly that Colombia expected "severe sanctions" against Washington Mayor Marion Barry in his drug and perjury trial.

After his inauguration, Gaviria reiterated his calls for international solidarity. His emphasis on multiple approaches and flexibility, including a distinction between narcoterrorism and narcotrafficking, was viewed sympathetically by a populace that was tired of the unremitting violence. Gaviria also sought further negotiations with guerrilla groups. In addition to negotiations with M-19, talks had been under way with both the Fuerzas Armadas Revolucionarias de Colombia (FARC, the Revolutionary Armed Forces of Colombia) and the Ejército Popular de Liberación (EPL, the Popular Liberation Army).

FARC, formed in 1966, had nominally observed a cease-fire since May, 1984. Linked to the leftist political front UP, FARC remained the largest and best-equipped insurgent movement in Colombia. Its ties with narcotics traffickers were believed to be strong. However, FARC's tactical goals and objectives had been ambiguous.

The EPL, a smaller Maoist group formed in 1967, had centered its recent activities on the Urába region, where banana workers and other peasant groups were targets for recruitment. In early February, 1990, FARC declared a unilateral truce designed to encourage a peaceful climate for elections, and the EPL issued a similar statement later that month. Meanwhile, the Ejército de Liberacion Nacional (ELN, National Liberation Army), 1,500 strong, maintained its firm refusal to talk with the government.

First created as a pro-Cuba group in July, 1964, the ELN has concentrated recently on attacking oil facilities to the east. Probably Colombia's most active guerrilla movement, the ELN has cost the nation an estimated $500 million by disrupting Colombia's 490-mile pipeline over a five-year period. It staunchly rejected overtures from the government; and before the elections the ELN announced a "don't vote" strategy that intimidated many local candidates in regions where the group was strongest. At this writing, it has refused to talk with the government. This intransigence contrasts with the policies of the more conciliatory EPL, which signed a letter of intent with the Barco government three days before the presidential elections.

The EPL's Bernardo Gutiérrez confirmed the accord, although he denounced the "destabilization program" in Colombia (which he ascribed to ultrarightists). Shortly after the elections, the EPL opened peace talks with the government, speaking of its desire to work for a durable peace. Spurred by Gaviria's expressed interest in further peace negotiations with guerrilla groups, the EPL demobilized along Colombia's northern Caribbean coast. Simultaneously, it reiterated demands for a new constitution and for greater congressional representation of smaller parties. As Gutiérrez stated, the EPL envisioned participation in a broad leftist alliance dedicated to a true pluralistic democracy that would make armed struggle unnecessary.

THE OUTLOOK

The Gaviria government readily seized the reins of power in August. Its major concerns were less economic than political. Certainly the Barco administration had tried to maintain economic stability despite relentless attacks on many fronts. Nonetheless, its traditional pro-business policies had produced more rhetoric than substance. Barco had begun to adopt measures favoring greater interna-

[7] *Washington Post,* July 14, 1990.

tional competition only in the final months of his government. There was a general sense that Colombia should move away from import substitution, which was regarded as promoting inefficiency and high prices.

The economic opening under the new President was scarcely unexpected. Incentives for investments and exports were at the core of Gaviria's economic program, along with a commitment to privatization. Communications and rail, ports and many public services were to be privatized, in addition to five of the nation's banks. A separate array of measures was to streamline the nation's financial sector. The new government also pledged to decentralize its economic agencies and indicated that it intended to free the agricultural sector from traditional regulation by means of official price supports.

Until such efforts take effect, economic pressures will remain serious. The rising cost of the drug war in recent years has made the defense sector Colombia's largest importer; between 1988 and 1989 alone, the cost of the war grew by nearly 300 percent. The collapse of the international coffee agreement has also been damaging. In the 12 months beginning in July, 1989, Colombia's coffee earnings fell by $200 million, with worse still to come in the absence of an international agreement with other producers. Oil revenues are jeopardized by ELN attacks. Coal production at El Cerrejon has also fallen off, because of continuing workers' strikes. However, coal exports—which rose from $271 million in 1987 to more than $500 million in 1990—are a cornerstone in the government drive to increase nontraditional exports.

By the closing months of 1990, the impact of M-19's integration into civilian life seemed to promise further success with guerrilla insurgents. The EPL and two smaller guerrilla groups engaged in exploratory talks with government representatives. Gaviria stressed the need to attract rebel groups to return to society; at the same time, he tried to strengthen control over the military.

In parallel fashion, Gaviria's approach to the drug industry continued to offer alternatives to extradition. In September, three suspected drug traffickers, who would previously have been extradited automatically, were instead dealt with under Colombian law. The Medellín cartel's continuing unilateral truce was reflected in a relative decline in violence.

As Bogotá's newsweekly *Semana* expressed it, the new President was offering narcotraffickers a choice between the carrot and the stick. Despite the initial euphoric response, however, the effectiveness of the offer is not clear. Late in September, seven journalists were kidnapped. They included Diana Turbay de Uribe, the daughter of a former President, and news editor Francisco Santos of Bogotá's *El Tiempo*. President Gaviria reiterated his refusal to negotiate with the Medellín cartel, which was believed responsible for the kidnapping. The Extraditables continued to demand treatment as ordinary political criminals, along with amnesty and reincorporation into civilian life. In October, guerrilla activity was also renewed; there was a FARC attack along the border against an anti-drug unit of the Ecuadorean army.

Colombia's problems with the drug industry continue undiminished, and the Gaviria approach is still untested. Furthermore, the killing of 19 people in Cali on September 25 suggested the possible renewal of the feud between the Cali and Medellín cartels. As Colombia moves into the 1990's, its long travail with violence—whether spurred by narcotraffickers, guerrillas, military and police, or rightwing death squads—has by no means ended. At the same time, the traditional two-party hegemony, while weakened, has not shaken the hold of traditional political elites. When the Constituent Assembly convenes in February, 1991, it will enjoy an unmistakable popular mandate to introduce meaningful reforms. To do so, however, will be to fly against powerful historic trends and long-established patterns of political behavior. It is far from clear whether a new path will be followed. ■

PERU

(Continued from page 64)

In the midst of the nation's poverty, many citizens expressed outrage at the Democratic Front's $12-million television barrage. In contrast, Fujimori funded his campaign with a $26,000 second mortgage on his house. He concentrated on personal appearances rather than advertising in the media. In the provinces, he attracted crowds by driving tractors around town squares. At rallies in the shantytowns that ring Lima, Fujimori offered himself to the people as "a Peruvian like you." Many of the "informals" originally attracted to Vargas embraced Fujimori as an honorary *cholo* (humble mestizo). They referred to him affectionately as *El Chinito,* "the Little Oriental."

Braving death threats from the Shining Path, 80 percent of Peru's 10 million eligible voters expressed their preference for President on June 10. Fujimori won 56.5 percent of the vote, and Vargas won 34 percent; 9.5 percent of the ballots were spoiled or blank. Fujimori carried 23 of Peru's 24 departments and he won 70 percent of the vote in the working class districts of Lima.

THE NEW GOVERNMENT

Between his election and his inauguration, Fujimori traveled to Japan and the United States,

seeking to restore Peru to the good graces of the international financial community. In return for his promise to institute strict austerity and resume paying the service on Peru's foreign debt, the President-elect obtained a preliminary commitment for bridge loans from an international consortium including Japan, Spain and the United States to cover Peru's $2-billion defaulted debt to the IMF and other international lending agencies. It was hoped that support from these institutions might bring Peru relief from its commercial creditors.

Because Cambio '90 held a weak minority position in Congress and Fujimori lacked a well-organized political base, the President-elect announced that he would establish a national unity government, selecting members of his administration from across the political spectrum. Popular Action's Juan Carlos Hurtado Miller, a Vargas supporter, was named Prime Minister and minister of finance. The industry portfolio went to another conservative. Two members of the Socialist Left and a leader of the United Left were also appointed to the Cabinet. However, the largest number of ministerial posts went to independents.

The absence of APRA members among the ministers set the stage for Fujimori's blistering reprimand of President García in his inaugural address. In addition to charging incompetence and mismanagement, the new President accused the APRA government of "millionaire frauds," which he promised would be investigated and punished.

On August 8, Prime Minister Hurtado announced the first phase of an 18-month economic stabilization program. Foreign trade policies were liberalized by eliminating all exchange controls, lifting restrictions on most imports and deeply cutting tariff rates. The government ordered all state-owned companies to raise their prices to levels that would make them profitable, to institute a hiring freeze and to furlough employees who had been hired during the final months of the García administration.

Most important, the government ended all price controls and subsidies, except for those on fuel. To compensate partially for skyrocketing prices, Fujimori's administration quadrupled the minimum wage to about $50 per month and ordered payment of a bonus to all public and many private-sector employees that was equal to their July salary. The administration fashioned a $400-million emergency relief program to help an estimated seven million poor, including self-employed workers who would not benefit from the bonus or the boost in the minimum wage. The relief effort was to be financed by a temporary 10 percent export tax and a one-time, 1 percent levy on corporate equity and the private holdings of wealthy citizens.

"Fujishock" brought Peru its steepest one-day price increases in the twentieth century. The cost of gasoline soared 3,000 percent, from 7 cents to $2.25 per gallon. Electric rates quintupled, and the charge for water in Lima rose more than eightfold. The price of most food staples jumped 300 to 400 percent. The working urban poor—who must buy food every day, since they are paid daily—suffered most from the sudden increases. Even workers with enough money for groceries found that stores were closed by merchants who feared violence. Soup kitchens participating in the emergency relief program were overwhelmed by the number of hungry people. Sporadic looting and rioting in the capital brought 6,000 arrests. Fujimori's popularity plummeted among his poor constituents.

The price increases resulted in a 400 percent inflation rate in August, unprecedented in Peru. In September, inflation advanced only 10 percent (compared with 90 percent in July). But almost all indexes of economic activity also dropped precipitously, causing great concern that the economy might fall into a deep depression. With 70 percent of the labor force underemployed, half the population suffering from malnutrition and productivity below the levels of 25 years earlier, the economy desperately needed resuscitation. The government hoped that other elements of its economic plan—a streamlined tax system, incentives for agriculture and small-scale mining, new private investment and international debt restructuring—would bring sustained economic growth.

Although rescuing the ravaged economy was most important to the new administration, the guerrilla war continued to be Peru's most intractable problem. In his election campaign, Fujimori had called for a comprehensive, long-range strategy against terrorism that would address the social and economic roots of the insurgency. He proposed transforming the Huallaga Valley into the nation's breadbasket, substituting food crops for coca and providing improved transportation to move these products to market.

In the competition between the armed forces and the national police for supremacy in the counterinsurgency effort, Fujimori sided decisively with the military. He appointed army General Adolfo Alvarado minister of the interior, the Cabinet officer who controls the police. A campaign against corruption purged much of the police leadership, including the head of the United States-sponsored anti-drug unit in the Huallaga Valley. These changes indicated, to Washington's displeasure, that the battle against the Shining Path would receive priority over the campaign against cocaine. In September, Fujimori spurned $36 million in United States military assistance earmarked for the

war on drugs, explaining that these resources were destined solely for repression. The President indicated that the badly needed military aid would be welcomed as part of a package that included substantial funding for peaceful programs to wean peasants away from coca production.

When García assumed the presidency of Peru in July, 1985, some commentators glibly predicted success for his government simply because they believed that the nation's fortunes could not sink any lower; at worst, Peru would muddle through. They were wrong. President Fujimori has little room for error as he tries to bring his country back from what many observers fear is the brink of social dissolution. ■

ARGENTINA

(Continued from page 60)

scribed his predecessors seem effortless, and he acted as if it were inevitable. Once he began the process, everything that followed drew less criticism. For example, he was able to end Argentina's trade embargo with Great Britain and restore relations with it less than a year later. His motives were practical; Argentina needed better relations and more trade with Europe.

Foreign Minister Domingo Cavallo called this approach "pragmatic." Foreign capital was required to modernize the nation's industries to make them more competitive. Menem made foreign access to the country easier, starting with relaxed rules on petroleum exploration. Using the Association for Latin American Integration, he sought to create a new free trade system in Latin America. He was even more ambitious within the Southern Cone, where he spoke about creating a common market that would include Brazil, Uruguay and Chile.

Menem's desire to build a closer relationship with the United States was the most unusual aspect of his foreign policy. Foreign Minister Cavallo acknowledged that good relations between the two countries in the past had been prevented by Argentina's internal political instability, its conflict with Great Britain, its refusal to sign nuclear nonproliferation agreements and mutual accusations of unfair trade. But Cavallo wanted to overcome these obstacles, either unilaterally or through careful negotiations. The change in the Argentine public's attitude toward the United States helped Menem; recent polls indicated that 50 percent of the respondents approved of closer relations between the two countries, while only one-third of those polled still opposed better relations.

Cavallo argued that Argentina would gain from closer economic ties to the United States and to Europe. This might require that Argentina accept some United States government demands—for example, that Argentina cease building the Condor II missile—but he said that he was prepared to make such concessions if the United States would reciprocate by lowering some barriers to Argentine imports.

Menem also sent two warships to join the multinational forces enforcing an embargo against Iraq after it invaded neighboring Kuwait in August. He declared that he was placing Argentina alongside the United Nations members who were policing the new international system, now that the old, bipolar system was disappearing. But he also wanted to gain favor with the United States, hoping that Argentine goods would receive a better reception throughout North America, as he told President Bush when they met at the White House in mid-October, 1990.[9]

Menem added another surprise in November when he reversed nuclear policy. After Argentina had refused for two decades to sign any treaty that prevented it from building nuclear weapons, on November 28 Menem and Brazilian President Fernando Collor de Mello agreed to prohibit nuclear weapons in Brazil and Argentina. They also agreed to guarantee the right to inspect each other's nuclear facilities. Their accord will most likely make it possible for both governments to ratify the Treaty of Tlateleco, which was ratified more than 20 years earlier to prevent the proliferation of nuclear weapons in Latin America.

A LONG WAY TO GO

Recently, a foreign economist who knows Argentina well said it would take Menem's reforms about 10 years to restore financial stability and economic abundance in Argentina. Most Argentines do not want to wait that long.

The deterioration in social conditions during Menem's first year presented a serious problem. The Argentine people became increasingly afraid of one another. Poverty grew among the lower classes, and a once-prosperous middle class worried about teenage thieves in the Buenos Aires suburbs. Nothing attracted more press attention in mid-1990 than the episode of a middle class engineer who pulled up alongside the car of two boys who had stolen a tape deck from his car, and then shot and killed them. He claimed that he was administering justice and many people agreed. Promises of bounty after free markets were restored offered little consolation to most Argentines.

Menem's predicament was obvious. Liberal economics was politically risky because it threatened people who relied on government employment, protection against cheaper imports and subsidies.

[9] *La Nacion,* international edition, October 1, 1990, p. 1.

His program asked people to change the way they had been doing business for a half-century. In the short term, this accelerated the decline in an already shrinking middle class, while a few Argentines with great wealth continued to prosper. Even people who welcomed his attempt to make them live by new economic rules feared that the effort would be exploited by the few among them who were already affluent.

If anything were encouraging, it was the way citizens in Buenos Aires province were trying to build a viable democracy. Rather than fleeing from the political process the moment the economy floundered or when the President seemed to be wielding too much power, Argentines demanded reform of the political process. It was naive to think that changing a few electoral laws could make democratic government perform perfectly, but at least these Argentines were exploring ways to improve an elitist political system. ■

DEMOCRACY IN CHILE

(Continued from page 56)

return to civilian rule has helped keep debate within civilized bounds as repressed political actors try to stake out turf in a new, competitive arena. With both ideological extremes relegated to the shadows, a broad spectrum of groups—from Socialist to hardline conservative — have agreed to play by the democratic rules that they once discarded in an era of intense political passions.

In his campaign and during his first year in office, Aylwin personified Chile's need for consensus and reconciliation after two decades of political trauma and polarization. The most poignant demonstration of this effort came on September 4, 1990, when the family of the late President Salvador Allende Gossens brought his body from a coastal graveyard where it had been buried anonymously for 17 years and held a formal funeral in the National Cemetery.

Sharing the dais with Allende's widow, Isabel, and French Prime Minister Michel Rocard, Aylwin delivered a gracious speech that acknowledged Allende's inspiration to millions of Chileans and his own opposition to Allende's Socialist regime. Although the armed forces refused to participate in the ceremony, the event symbolized the Alywin government's determination to put the divisive past behind it.

The Communist left, once a disruptive element in Chile's transition to democracy, has lost almost all relevance in the post-Pinochet era. Voters, who were tired of the political violence that culminated in the 1986 assassination attempt against Pinochet, rejected every extreme left candidate for legislative office, leaving Latin America's second largest Communist party with no official representation. Adrift and in disarray, the party has been rent by a bitter struggle between reformists and hard-line Marxist-Leninists. By midyear, leading members had been expelled, and several others had split the party into factions.

In contrast, the Concertación por la Democracia, the coalition of center-left parties that formed to defeat Pinochet, has maintained remarkable cohesion. Some divisions have emerged among Socialist groups as they debate how far to renovate their thinking as changes sweep the Socialist world. The Christian Democratic party remains fragmented, but it has also emerged as a pragmatic force for compromise. As elections loom closer, more splits are possible within the Concertación. But as long as Pinochet remains in command of the army, progovernment forces have a strong incentive to remain united.

FOREIGN POLICY

After Aylwin's election, Chile quickly shed its pariah status in the international community. Pinochet rarely traveled abroad, and his only close foreign ties were with other autocratic leaders. In contrast, Aylwin's inauguration was attended by most democratic leaders in the Western Hemisphere, and he has already visited several countries in Europe and Latin America and has addressed a session of the United Nations. Chile has also been invited to join the informal association of Latin American Presidents known as the Rio Group, and Chilean officials have begun to play important roles in international financial circles and multilateral institutions.

An unexpected obstacle to Chile's otherwise smooth return to the international community is the tension in relations between Santiago and Washington, D.C. Although United States officials have heartily praised Chile's return to democracy and the implementation of free market reforms, they have nevertheless been reluctant to lift a number of economic sanctions imposed during Pinochet's reign. This has created deep resentment in Santiago and has given Aylwin's rightist opponents the grounds to argue that democracy has failed to bring Chile the international rewards promised by anti-Pinochet leaders.

In some instances the continued sanctions are not aimed at punishing Chile politically. In the 1980's, the United States rescinded Chile's preferential trade status because of labor violations, and there have been delays in restoring it. Curbs on the import of Chilean fruit through restrictive marketing orders are partly the result of protectionist pressure in the United States and partly the residue of a 1989 incident in which two poisoned Chilean grapes were

found in a United States-bound shipment. A third sanction, the ban on overseas private investment insurance, was lifted in September, 1990, when Aylwin met with United States President George Bush in Washington, D.C.

The most serious barrier to improved United States–Chilean relations, however, is the unsolved 1976 assassination of Orlando Letelier, an exiled former Cabinet minister for Allende who was killed along with his American assistant, Ronni Moffitt, by a car bomb in Washington, D.C. The crime was linked to Pinochet's secret police force; the former chief of the secret police, General Manuel Contreras, and his top lieutenant have been wanted by the United States Department of Justice since 1979.

The Chilean Supreme Court has refused to extradite the men, who live in well-protected retirement. However, the Aylwin government is determined to prosecute them at home. In November, 1990, the government appeared to be making headway in a legislative battle to move the case from military to civilian courts. Nevertheless, strong opposition from the army, the justice system and the political right make a successful criminal prosecution unlikely.

The Letelier and Moffitt families as well as United States officials have pressed the Aylwin government to reopen the case and prosecute or extradite the former security agents. Liberal United States legislators, like Senators Edward Kennedy (D., Mass.) and Thomas Harkin (D., Iowa), who led the fight to prohibit United States military aid and sales to Pinochet in the 1970's, see the ban on military aid as keeping pressure on the Chilean military and oppose lifting it until progress is made in resolving the case.

In Chile, this attitude from long-time "friends of Chile" is seen as a slap in Aylwin's face. Chilean officials felt betrayed by Washington's refusal to certify that their country no longer violated human rights. Only after Chilean leaders mounted an intense lobbying effort in Washington did the Bush administration consider lifting the arms sale embargo in time for President Bush's trip to Chile in December, 1990.

THE FIRST YEAR OF DEMOCRACY

The difficulties that Chile's elected officials faced in the first year of postdictatorial rule seem modest when compared with the staggering economic, social and political problems that plague democratic leaders in countries like Brazil, Peru and Guatemala. Although many of the Aylwin government's policy initiatives have been stymied, the government's authority has not been seriously challenged by the armed forces, its public popularity is high and its political opponents appear committed to democratic rules.

Yet many of the Aylwin administration's most serious problems lie just over the horizon. When the Rettig commission report on human rights abuses is released in early 1991, it will inevitably antagonize the military. Average citizens will begin to feel the pinch of slowed economic growth, and political positions will harden as local elections loom. The first year of Chile's democracy has not been a honeymoon, but there has been a spirit of consensus that could still crumble if the lessons of a nearly 17-year dictatorship are lost in the pressures of the moment. ■

BRAZIL

(Continued from page 75)

In the October, 1990, gubernatorial elections, 14 states had no clear winners. In the November 25 runoffs, candidates supported by Collor were defeated. This dims his chances for reelection in 1994, should a constitutional amendment permit him to run. The elections left Collor without a power base in São Paulo, Minas Gerais, Rio Grande do Sul and Rio de Janeiro. Together these states represent more than three-fourths of Brazil's gross domestic product (GDP) and voters. The electoral results were a clear indication that confidence in Collor's policy has rapidly eroded.

FOREIGN DEBT

Since 1987, Brazil has insisted on dealing directly with its commercial creditors, bank by bank, instead of first reaching economic adjustment agreements with the International Monetary Fund (IMF). Earlier, Brazil was required to sign these agreements so that it could deal with a 14-bank advisory committee that negotiates for all creditors. Technically this committee, dominated by United States banks, advised Brazil on how to handle debt servicing and payment requirements; however, the committee has been known to dictate its terms to its clients. In 1987, Minister of Finance Dilson Funaro broke this pattern by suspending payment on the interest on the loans.[5] Brazil also placed more European bankers on negotiation committees to weaken the United States banks. In response, United States bankers pressured the IMF and the United States Treasury to steer Brazil toward coming to terms with commercial creditors before the multilateral institutions would grant fresh loans.[6]

---

[5]Eric Nepomuceno, *O outro lado da moeda: Dilson Funaro: Historias ocultas do Cruzado e da moratória* (Rio de Janeiro: Edicoes Siciliano, 1990), pp. 37–45.

[6]An interview with John Reed, chairman of Citicorp, in *Veja,* August 1, 1990; *The Economist* (London), October 27, 1990.

Economy Minister Cardoso insists that Brazil wants to renegotiate with its creditors, but not under the old conditions. Brazil paid more than $47 billion in interest and $21.6 billion in principal between 1985 and 1989, and said it will not pay its creditors if doing so interferes with current economic policy. Since September, 1989, Brazil has suspended all interest payments on its debt. However, it has worked with the IMF and has reached an agreement that will permit both economic growth and payment on the debt. In fact, both IMF and World Bank officials have enthusiastically approved much of the Collor plan.

Brazil's ambassador to the United States, Jório Dauster, and Antônio Kandir, Cardoso's confidant at the Ministry of Economy, met with bankers in New York in mid-October, 1990, to discuss restructuring Brazil's $70-billion commercial bank debt. The terms offered by the Brazilians were not what the bankers had hoped for. The Brazilians offered three options: convert the debt to 45-year bonds with a fixed interest rate of 9 percent; convert to 25-year bonds with an interest rate that would rise to 10 percent in the tenth year and will remain at that level until maturity; or to convert to 15-year debt paper bearing 3 percent interest beginning in the fourth year. Unlike the Mexican restructuring in 1989, none of the Brazilian bonds would be backed by United States Treasury zero-coupon bonds. Furthermore, Brazil wanted a fresh loan of $8 billion to pay the interest arrears that were about $9 billion, and said it would not pay interest in excess of $1 billion per year.[7]

Since Brazil suspended its interest payments, the banks have made Brazil's access to short-term credit difficult. Instead of servicing the debt, Collor's government has drawn on reserves to pay for imports. Thus the banks and the Brazilians have been escalating a war of wills: the banks are diverting money to increase their reserves to cover future loan losses instead of making fresh loans to Brazil.

The Brazilians are using trade surpluses to expand their international commercial activities instead of paying interest to the banks. This deadlock must be broken if both the banks and Brazil are to benefit. The success of the Collor plan, especially its monetary policy, depends largely on a swift and favorable conclusion to the renegotiation of the debt. In June, 1990, United States bank regulators forced banks with loans to Brazil to write down 20 percent of the $1.1 billion in arrears. If negotiators between Brazil and the banks are unable to agree to equitable terms before the end of 1990, the regulators will force another write-down of 20 percent in early 1991, which would be disastrous for the banks.

FOREIGN RELATIONS

Brazil has been one of the main suppliers of arms to Middle East countries, especially Iraq. *Le Monde* calculated in early October, 1990, that Brazil accounted for five percent of all Iraqi arms imports, making it Iraq's fourth largest supplier. In 1985, Brazil sold $1.1-billion worth of arms to Iraq. The Brazilian arms industry maintains a large number of technicians and engineers in Iraq, including those who work for HOP, a private consulting firm led by (and named for) Hugo o Piva, a retired Brazilian air force general. HOP's engineers are reportedly in Iraq to build air-to-air missiles as well as to modify Soviet-made missiles to give them long-range capabilities. The presence of HOP engineers and the extent of Brazil's arms trade with Iraq has embarrassed Collor, but the government's official position is that Brazilian arms dealers are in Iraq as private individuals and companies. The Iraqis have not paid their bills to a dozen Brazilian arms suppliers in the past two years. In late October, 1990, Avibrás (the state-owned aviation company) sold 10,000 Astro II rockets to Saudi Arabia for $67 million; the rockets were originally built for Iraq. The Brazilian firm's decision to sell the Astros to the Saudis was purely financial.

Iraq's invasion of Kuwait in August, 1990, also created problems between the United States and Brazil. Since 1988, Brazil has tried to purchase a supercomputer from the United States-based International Business Machines (IBM). The United States has balked at approving the sale, because it suspects that the supercomputer might be used to develop a nuclear weapon. In 1990 the United States Senate, in an attempt to pressure Brazil to stop trading with Iraq, approved an appropriations bill that included a rider that would prevent Brazil from purchasing the computer.

THE ENVIRONMENT

Collor has sought to attenuate Brazil's image as the environmental bête noire of the planet. "An ecological vigilance is growing among us," he assured the United Nations.[8] Nevertheless, discordant views and policy goals and an inability to enforce existing legislation have been common.

In the final year of his presidency, Sarney countered the mushrooming international criticism of Brazil's unchecked burning of the Amazon rain forest with a program called "Our Nature." Cast in strong nationalistic terms, the program declared that the Amazon "is ours" and that outside interference was detrimental to the democratic pro-

[7] *Gazeta Mercantil,* October 15, 1990; *Wall Street Journal,* July 19, 1989, September 4, 1990, and October 17, 1990.

[8] *Veja,* October 10, 1990.

cess in Brazil. Democracy, Sarney reasoned, was possible only if accompanied by progress and wealth, clearly suggesting that Brazil had no choice but to develop the resources of the Amazon. In addition, development would allow Brazil a level of integration with its Amazonian neighbors. While Sarney also expressed a desire to cooperate with foreign entities in environmental matters, his message tended to alienate the international community rather than gain its sympathy.[9]

Collor has tried to calm the waters muddied by Sarney's defiant tone. He has stated a willingness to consider debt-nature swaps, an option eschewed by Sarney.[10] Whether such swaps will ever come about on a large scale is another matter, although one $200-million deal has reportedly been negotiated. It is far more advantageous for creditor banks to sell Brazilian debt than donate debt to conservation projects. Conversion of debt into environmental projects would also depend on the economic resources at the disposal of conservation groups, few if any of which are in a financial position to buy debt on the secondary market.

Other events designed to improve Brazil's international reputation are also in the works. Brazil will host the 1992 United Nations Conference on Environment and Development, which will be held in Rio de Janeiro. One of the main issues the conference will discuss is Collor's proposal to levy an international tax on the emission of polluting gases, a measure aimed primarily at developed countries. The tax revenues would be used to finance environmental preservation projects globally.

On the issue of sustainable development, the new administration has lacked clarity. This has been nowhere more evident than that in the relations between Special Secretary for the Environment José Lutzenberger and Special Secretary for Science and Technology José Goldemberg. Lutzenberger gives priority to preservation while Goldemberg prefers development. Confrontations between the two have centered on large state-sponsored projects, most notably the pig iron smelters of the Grande Carajás mining project; the hydroelectric projects in the Amazon; the Floram project, which envisions planting 25 million hectares of forest within five years in the Amazon; a BR-364 highway project that would link the state of Acre with the Pacific Ocean; and Collor's proposed international tax on the emission of polluting gases. These projects have been defended by Goldemberg and fought by Lutzenberger.

While Brazil has been making serious efforts to address its environmental problems, external criticism and pressure have resulted in at least one notable backlash. In the October elections, the state of Amazonas returned Gilberto Mestrinho of the PMDB to an unprecedented but nonconsecutive third term as governor. His campaign championed chain saws and hunters. "The center of ecology is man," Mestrinho proclaimed, "and I will be the governor of men and not of forests and critters." Mestrinho made fishermen, farmers and rural laborers the objects of his administration's concern. "Every time I come to know of violence committed by a delegate from Ibama [Brazilian Institute for Environment and Renewable Natural Resources], I will throw him in the Manaus jail." As for the forest itself, Mestrinho is convinced that there are no healthy trees in the Amazon and that man "should use them up before the termites do."[11]

As the largest tropical country in the world, Brazil could become a world leader in addressing environmental matters concerning the tropics. It could gain this leadership through policies that strike an acceptable balance between development and preservation, destruction and conservation of forests, and designated economic and ecological zones. The new administration, state and local government entities and scores of nongovernmental organizations worked throughout 1990 to move Brazil forward on this matter, albeit often with a healthy disagreement about which way is "forward."[12]

AN UNCLEAR FUTURE

Since May, 1990, Brazil's monthly inflation has stubbornly remained at more than 10 percent. The rate for November was more than 18 percent, a far cry from the single-digit rate that Collor's economic team had predicted. In addition, the government's promise to privatize one SOE every month has not been kept. By early November, leading businessmen and industrialists were complaining loudly about the lack of direction in Collor's economic policy. A record number of companies declared bankruptcy while sky-high interest rates kept many firms from borrowing. Collor and his economic aides bitterly criticized the Brazilian business community for wanting capitalism without risk and without competition. Collor's strategy of liquidating inflation should succeed if the current policy is kept in place. But without adjusting this policy, Brazil will enter 1991 with the prospects of a deep recession and social unrest. ■

[9] "Programa Nossa Natureza," *Resenha de Política Exterior do Brasil,* April-June 1989, pp. 11-24.

[10] *Jornal do Brasil,* April 15, 1990.

[11] *Veja,* October 10, 1990; Mestrinho previously held office in 1959-1963 and 1983-1987.

[12] For a brief discussion of a broad range of Brazilian environmental issues, see the interview with Thomas Lovejoy, in *Veja,* October 10, 1990. For comprehensive updates on scholarly activities and research on the Amazon, tropical rain forests in general and related environmental topics, consult the *TCD Newsletter* [Tropical Conservation and Development Program], University of Florida, Gainesville, Florida.

UNITED STATES POLICY
(Continued from page 52)

capability. While Cuba lies directly at the entrance to the Gulf, any Cuban attempt to try to block that entrance with its two diesel submarines and its MiG fighter planes would lead to its obliteration in a matter of hours—a fact of which Cuba is well aware.

Thus the geopolitical concerns that once riveted United States attention to the Caribbean basin have largely disappeared. While the area will remain important to the United States because of its proximity, the focus of American attention is likely to shift to South America and to new problems.

If strategic denial has become obsolete, so has the need to assert hegemony. To address the kinds of challenges the United States faces in Latin America today, it does not need to control or dominate the other states; rather, it needs their cooperation. The United States cannot, for example, reduce the flow of drugs into the United States by sending battleships and Marines to South America. The United States could not put enough troops into the southern hemisphere to solve that problem. A United States military presence would only turn governments and people, as well as drug traffickers, violently against the United States. Such action would compound the problem, not resolve it.

FIGHTING THE DRUG PROBLEM

The drug problem is in fact two-sided: consumption and production, with the consumer side centered in the United States. As long as there is a market for a product, it will be produced, no matter how strong the efforts to eradicate production. The United States must pay much more attention to reducing consumption. If not, its commitment to solving the drug problem will not be credible.

Neither the United States nor the Latin American governments can eradicate production through legislation and police action. The result of such efforts during the past few years has been to contain production to a 10 percent increase.[11] It is sensible to pursue the drug cartels, which in some cases threaten governments. But the cartels are only part of the problem. They do not grow the coca; poor peasants in Bolivia, Peru and Colombia do. The peasants depend on their crops of coca leaves to eke out a meager existence. They have raised coca for centuries and have little concept of the havoc their product causes elsewhere; they are not likely to give up their only source of income just because the United States and their own governments demand it. They must find alternative crops and sources of income. This will occur only as a result of a major cooperative effort among the United States, individual Latin American governments and international organizations. Such an effort requires a large-scale input of resources, most of which must come from the United States. This would be a small price to pay, nonetheless, if drugs are, as President Bush has said, the number-one threat to the national security of the United States.[12]

The United States also desperately needs the cooperation of the Latin American governments in efforts to protect the environment. The heart of the matter is the destruction of the Amazon rain forest in Brazil. Like the drug problem, deforestation is linked to economic development. Brazil has started to move in the right direction, but all too slowly. As one Brazilian official recently said,

> We of course want to protect the environment. In the best of all possible worlds, we'd like to preserve the rain forest. On the other hand, we must develop, must offer our people a better way of life. We can't afford to be the lungs of the world if we are also to pay off our foreign debt and finance our development plans.[13]

If the United States wants to reduce the flow of drugs and gain the cooperation of Latin American governments in protecting the environment, it must help Latin America develop economically. Economic development would be in the interest of the United States for another reason. Latin Americans used to buy about one-third of all United States exports. That is no longer the case, because the countries of Latin America are so impoverished that they cannot afford to buy United States goods. A major and comprehensive hemispheric program embracing debt-relief policies, investment incentives, better terms of trade and large-scale public-sector assistance should be developed and put in place.

THE BUSH ADMINISTRATION'S RESPONSE

How has the Bush administration responded in Latin America in light of the changes in the international landscape? It is too early to draw any hard and fast conclusions, but so far the administration's reaction has been disappointing, especially with regard to its willingness to conduct foreign policy in accordance with the UN and OAS charters. The administration seems to understand that the cold war is over, but its initial reaction has been to be more assertive and to give less rather than more attention to international law. The invasion of Panama in December, 1989, for example, represented a virtual resuscitation of the Roosevelt corollary. The United States made no effort to consult with

[11] *The New York Times,* November 18, 1990, p. 3.
[12] Ibid.
[13] Interview in Washington, D.C., May, 1990, with a senior Brazilian diplomat who asked for anonymity.

the OAS or with individual Latin American governments, nor did it take its case to the UN Security Council prior to the invasion, as required by Article 51 of the UN charter. The latter provides for the right to self-defense, but only after the Security Council has acted on the issue. The state claiming to be acting in self-defense must report the action against it to the Security Council. The United States did not do so. As a result, President Bush's claim that he had acted under Article 51 was totally indefensible. Accordingly, the UN strongly deplored the invasion by a vote of 75 to 20, with 40 abstentions.

None of the other four reasons the President gave for the invasion (to protect American citizens; to arrest Panamanian dictator Manuel Noreiga; to defend democracy; and to defend the Panama Canal) met the standards of international law.[14] No nation has the right under either the UN or OAS charters to use force against another nation to defend democracy or any other political system. Nor do the charters stipulate any right to invade to protect one's citizens. In the case of Panama, United States citizens could have been more effectively protected by confining them to United States military installations; some were killed during the invasion. And under international law, the United States had no right to arrest Noriega. To claim such a right was to assert a form of extraterritoriality.

Finally, the Panama Canal treaties themselves did not give the United States the right to invade. The treaties specifically state that nothing in them shall be interpreted as giving the United States the right to intervene in Panama's affairs. The United States had an obligation to defend the canal, but there was no evidence that it was threatened. Noriega had been careful not to give the United States such a pretext. Furthermore, if the canal had been threatened, United States forces could have defended it from their own installations without invading Panama.

The invasion of Panama marked the first time since the days of "big stick" diplomacy that the United States has intervened without some shred of multilateral sanction. Interestingly, the United States did not claim to be invading to prevent a Communist takeover or to thwart a plot by the Soviet Union. After giving the OAS a few weeks to accomplish the United States aim of getting rid of General Noriega, a "wrongdoer," the United States took matters into its own hands and ignored the OAS charter. The invasion was unanimously condemned by the OAS.

Latin Americans wondered if the end of the cold war meant a return to the tactics of an earlier era. Now that the United States was no longer concerned about retaliatory action by the Soviet Union, would it resort to imposing its will by force whenever it chose?

It is unlikely that the Bush administration intends to return to the days of gunboat diplomacy. Still, its invasion of Panama was appallingly inappropriate. Former UN Ambassador Jeanne Kirkpatrick had argued that the United States would conduct foreign policy according to the UN charter if the Soviet Union would do so. When the Soviet Union made that change, the United States responded by invading Panama. Rather than moving toward the collective security envisaged in 1947, the Bush administration is moving the opposite direction.

The administration's inaction on environmental issues in South America has been almost as disappointing as the invasion of Panama. The Bush administration has made no significant attempts to forge a collective effort. Rather than providing leadership, it has dragged its feet in international forums. In the effort to protect the environment, it has so far contributed to the problem, not to the solution.

Concerning the export of drugs from South America, the Bush administration acknowledges that consumption is a major part of the problem and that the United States must do more to reduce it—though it has done little. The administration has also tried to create a more cooperative effort rather than simply demand that Latin American governments themselves do more to halt the flow of drugs. At the Cartagena, Colombia, summit on drugs in February, 1990, for example, when President Bush met with the Presidents of Colombia, Bolivia and Peru, he stressed the need for a broad multilateral campaign. But he was woefully short on specifics.

Finally the administration has done all too little so far to aid economic development in South America. The Brady plan has proved to be little more than a stop-gap measure, and not a very effective one at that.* On June 27, 1990, President Bush enunciated a new vision for Latin America that he called his "Enterprise for the Americas." This broad program of trade preferences holds out the long-term vision of a region-wide free-trade zone, promises some minor public-sector funding, offers incentives for private investment and calls for limited debt reduction. While vague and limited in scope, the proposal points in the right direction and has

*Editor's note: In 1989, the Brady plan, named for Treasury Secretary Nicholas Brady, proposed that banks holding outstanding loans from Latin American countries should forgive a portion of the debt in exchange for guarantees that the remaining debt would be paid.

[14]For a detailed discussion of the illegality of the invasion, see Charles Maechling, "Washington's Illegal Invasion," *Foreign Policy*, Summer, 1990.

raised hopes in Latin America. But there is a great distance to be covered before the idea becomes a reality. President Bush has promised to send the necessary legislation to Congress, but without a timetable. It could take many months or even years to send to Congress the many parts of such a piecemeal package. And is there really any disposition in Congress to back such a program in these days of growing deficits and impending recession? As one Latin American diplomat in Washington, D.C., predicted, "It's an encouraging statement. I applaud the President for making it, but frankly, I'll be surprised if anything very much ever comes of it."

This may be an overly pessimistic view. Nevertheless, the lack of development assistance in Panama and Nicaragua does not make one overly sanguine about the prospects for President Bush's broader program. The United States had some direct responsibility for destroying the economies of these two countries. Yet United States assistance has been minimal, late in arriving and so far, ineffective. Landing Marines and funding contras is one thing; following through with aid after the fighting is over is another.

With the exception of the "Enterprise for the Americas" initiative, which is so far only a point of light on the horizon, the Bush administration has taken little advantage of the tremendous possibilities created by the end of the cold war and the beginning of an era in which there is no enemy to threaten the United States from Latin America. The basic assumptions on which United States policy has rested for 200 years have been consumed by history. An imaginative and forward-looking policy geared to the new realities is badly needed.

It is not too late to begin, and the first step would be cost-free and relatively simple. Inevitably, there will be debates in the United States Congress about the allocation of resources for the "Enterprise for the Americas" program, for hemispheric drug-control efforts and for joint programs to save the environment. It would not cost a penny, however, to commit the United States to live fully within the UN and OAS charters, to eschew any unilateral interventions and to rely instead on the measures of collective security laid out in the OAS charter and the Rio Pact. By thus reassuring the other OAS members that the United States seeks their cooperation rather than their obeisance, the United States could vastly improve the prospects for joint efforts.

It is time to move from United States hegemony as implied by the Monroe Doctrine to a new era of hemispheric cooperation, the rule of law and full respect for the sovereignty of all. It is time for the United States to move out of the nineteenth century and toward the twenty-first century. ■

BOLIVIA

(Continued from page 68)

Bolivian cocaine traffickers. This is not a bad policy in the long run. But drug trafficking is much more profitable than running an airline or a brewery. Bolivia's druglords thus may not abandon their illegitimate drug trade but simply use the privatized companies as new fronts for money laundering.

While the drug traffickers face the prospect of acquiring respectability and legitimacy, the poor peasant coca growers struggle to survive against the combined armed might of the United States and Bolivian militaries. In November, 1990, 1,600 combat regulars of the Bolivian army were ordered to the Chaparé to wage war against the coca growers. Bolivia's peasants will undoubtedly resist this repression as did the Bolivian miners before them. ■

WORLD DOCUMENTS

(Continued from page 79)

immediately cease and desist from taking third-State nationals hostage, mistreating and oppressing Kuwaiti and third-State nationals and any other actions, such as those reported to the Security Council and described above, that violate the decisions of this Council, the Charter of the United Nations, the Fourth Geneva Convention, the Vienna Conventions on Diplomatic and Consular Relations and international law;

• • •

RESOLUTION 678 (November 29, 1990)

The Security Council,

Recalling, and reaffirming its resolutions 660 (1990) of 2 August 1990, 661 (1990) of 6 August 1990, 662 (1990) of 9 August 1990, 664 (1990) of 18 August 1990, 665 (1990) of 25 August 1990, 666 (1990) of 13 September 1990, 667 (1990) of 16 September 1990, 669 (1990) of 24 September 1990, 670 (1990) of 25 September 1990, 674 (1990) of 29 October 1990 and 677 (1990) of 28 November 1990,

Noting that, despite all efforts by the United Nations, Iraq refuses to comply with its obligation to implement resolution 660 (1990) and the above-mentioned subsequent relevant resolutions, in flagrant contempt of the Security Council,

• • •

Acting under Chapter VII of the Charter,

1. Demands that Iraq comply fully with resolution 660 (1990) and all subsequent relevant resolutions, and decides, while maintaining all its decisions, to allow Iraq one final opportunity, as a pause of goodwill, to do so;

2. Authorizes Member States co-operating with the Government of Kuwait, unless Iraq on or before 15 January 1991 fully implements, as set forth in paragraph 1 above, the foregoing resolutions, to use all necessary means to uphold and implement resolution 660 (1990) and all subsequent relevant resolutions and to restore international peace and security in the area;

3. Requests all States to provide appropriate support for the actions undertaken in pursuance of paragraph 2 of the present resolution;

4. Requests the States concerned to keep the Security Council regularly informed on the progress of actions undertaken pursuant to paragraphs 2 and 3 of the present resolution;

5. Decides to remain seized of the matter. ■

THE MONTH IN REVIEW

A Current History chronology covering the most important events of December, 1990, to provide a day-by-day summary of world affairs.

INTERNATIONAL

Cambodian Peace Plan

Dec. 23—At the end of a 2-day meeting in Paris, delegates from the Cambodian government, the Khmer Rouge and 2 non-Communist guerrilla factions agree to most provisions of a United Nations (UN) peace plan that calls for a cease-fire and free elections under UN auspices.

European Community (EC)

(See also *Intl, GATT, Persian Gulf Crisis; South Africa; Sweden*)

Dec. 14—Meeting in Rome, EC leaders agree to supply the Soviet Union with $2.4 billion in emergency food, medical and technical assistance.

General Agreement on Tariffs and Trade (GATT)

Dec. 3—In Brussels, 107 GATT members open a meeting on world trade.

Dec. 7—Talks to establish new world trade regulations break off after the U.S. and the EC fail to agree on reductions in EC subsidies to European farmers. Talks will be suspended for at least 2 months.

Gulf Cooperation Council (GCC)

Dec. 25—The leaders of the 6 member nations end their annual summit conference in Doha, Qatar, with a statement demanding Iraq's total and unconditional withdrawal from Kuwait.

Organization of Petroleum Exporting Countries (OPEC)

Dec. 13—In Vienna, OPEC oil ministers agree to limit oil production to 22.5 million barrels a day after the Persian Gulf crisis ends.

Palestine Liberation Organization (PLO)

(See *Lebanon*)

Persian Gulf Crisis

(See also *Intl, GCC, OPEC; U.S., Foreign Policy*)

Dec. 1—In response to U.S. President George Bush's offer of direct talks, the Iraqi Revolutionary Council says, "we accept the idea of the invitation and the meeting." The Iraqis say they also intend to discuss the future of the Palestinians in the Israeli-occupied territories. U.S. officials, including Vice President Dan Quayle, say, "Palestine is not an issue on the table" should the talks take place.

Dec. 2—In an interview, Iraqi President Saddam Hussein says that the chances of war or peace in the Persian Gulf are "50-50."

Dec. 3—The U.S. Defense Department announces that it is raising the number of reservists on active duty in the Gulf to 188,000; the previous limit was 125,000.

Dec. 4—Iraq agrees to let some 3,300 Soviet citizens still in Iraq leave this week.

In Cairo, Egyptian President Hosni Mubarak proposes a new alliance with Syria, Egypt and Saudi Arabia as "a foundation to serve the Arab people."

Dec. 5—In testimony to the U.S. House Armed Services Committee, U.S. Central Intelligence Agency (CIA) director William Webster says that if economic sanctions against Iraq continue, the Iraqi air force will lose its ability to fly regular missions in 3 months and Iraq's ground forces will lose combat-readiness in 9 months.

In Cairo, Saudi Foreign Minister Prince Saud al-Faisal promises $1.5 billion to Egypt to compensate for losses suffered as a result of the Persian Gulf crisis.

Dec. 6—Saddam says that all foreigners held hostage in Iraq and Kuwait will be freed.

Dec. 7—The U.S. State Department announces that it will close its embassy in Kuwait after all U.S. citizens who wish to leave Kuwait have done so.

Dec. 9—Some 1,000 foreigners fly out of Iraq; among them are 163 Americans on a chartered Iraqi Airways 747.

The Iraqi Foreign Ministry says that Saddam is too busy to meet with U.S. Secretary of State James Baker 3d before January 12.

Dec. 10—The last 175 American hostages in Iraq prepare to depart.

Dec. 11—Some 500 Western and Japanese hostages are flown out of Kuwait and Iraq.

French Defense Minister Jean-Pierre Chevènement says that France will send an additional 4,000 troops to Saudi Arabia.

Dec. 12—Saddam dismisses Iraqi Defense Minister General Abdel Jabbar Khalil Shanshal and replaces him with Major General Saadi Tuma Abbas.

Dec. 13—The last U.S.-sponsored flight out of Iraq and Kuwait arrives in Germany with 31 Americans and U.S. Ambassador to Kuwait W. Nathaniel Howell.

Dec. 14—President Bush says that direct talks with Iraq are "on hold" unless Saddam agrees to receive Secretary of State Baker no later than January 3.

Dec. 16—East European diplomats report that Iraq is delaying the departure of some 2,300 Soviet advisers held at Iraqi oil and military installations.

Dec. 19—Lieutenant General Calvin Waller, the deputy commander of U.S. forces in the Persian Gulf, says that because of logistical difficulties, there is "a distinct possibility that every unit will not be fully combat-ready until sometime after February 1." President Bush has been pressuring Iraq to withdraw from Kuwait by January 15 or face attack under a November UN resolution that permits "all appropriate measures" to force a withdrawal.

Dec. 21—In an interview in Baghdad, Saddam says Iraq will not withdraw from Kuwait by January 15 but the "door to dialogue" is still open to the U.S.

Visiting U.S. Secretary of Defense Dick Cheney tells U.S. troops in Saudi Arabia that Saddam is "not getting the message" and that it appears increasingly likely that force will have to be used to remove Iraqi troops from Kuwait.

Dec. 24—In Baghdad, Iraqi ambassadors from more than 24 countries meet with Foreign Ministry officials; Iraq recalled the ambassadors last week.

Dec. 26—An Iraqi cargo ship carrying food for Iraq is seized off the coast of Oman by U.S. and Australian naval forces.

Dec. 27—Military officials in Washington, D.C., report that the U.S. will soon begin vaccinating U.S. troops in the Gulf against the effects of biological weapons.

Saddam sends his ambassadors back to their posts; he says Iraq wants a "constructive dialogue" with the U.S.

Dec. 28—The British Defense Ministry announces that Great Britain will soon begin inoculating its troops in the Gulf against the effects of biological weapons.

Dec. 30—Meeting in Paris, EC foreign ministers agree to hold a special session to consider whether the EC should hold talks with Iraq to persuade it to remove Iraqi troops from Kuwait by January 15.
Dec. 31—Vice President Quayle visits U.S. troops in Saudi Arabia; he says that a U.S. attack on Iraqi forces in Kuwait would be "quick, massive and decisive."

United Nations (UN)

(See also *Intl, Cambodian Peace Plan, Persian Gulf Crisis*)
Dec. 20—The Security Council approves a resolution criticizing Israel for the deportation of 4 Palestinians from the occupied Gaza Strip; the resolution, which is supported by the U.S., asks the UN Secretary General "to monitor and observe" the conditions of Palestinians in the occupied territories and to explore the possibility of convening the signatories to the Fourth Geneva Convention, which details civilian rights in military-occupied areas.
Dec. 21—The Security Council votes to abolish U.S. trusteeship over several Pacific islands; the UN awarded the Trust Territory of the Pacific to the U.S. after World War II. All but one of the islands that were part of the trust territory are now independent.

ALBANIA

Dec. 10—President Ramiz Alia agrees to meet with student leaders after student protesters clashed with police yesterday during an anti-government demonstration.
Dec. 11—After 3 days of student protests, Communist party leaders endorse the establishment of independent political parties; elections are scheduled for February 10.
Dec. 19—The government recognizes Albania's 1st opposition party, the Democratic party of Albania.

ANGOLA

Dec. 14—Jonas Savimbi, the leader of the National Union for the Total Independence of Angola (UNITA), announces that his organization has tentatively agreed with the Soviet-supported Angolan government on a plan to end the 15-year civil war; the 2 sides have agreed to set a date for free elections and sign a cease-fire pact. The agreement was reached in negotiations sponsored by the U.S., Portugal and the Soviet Union in Washington, D.C.

ARGENTINA

(See also *U.S., Foreign Policy*)
Dec. 3—After a 2-hour battle, loyalist troops retake army headquarters and other military installations that were seized by dissident army troops earlier in the day.
Dec. 21—The government and armed forces ask for the death penalty for Colonel Mohammed Seineldin and Colonel Enrique Baraldina, leaders of the revolt on December 3.
Dec. 28—President Carlos Saúl Menem says that he will pardon and immediately free former Presidents Jorge Videla and Roberto Viola, who were both involved in the government's "dirty war" against leftists in the 1970's; 4 other officers and Mario Firmenich, former leader of the Montonero guerrillas, are also pardoned.

AUSTRALIA

(See *Intl, Persian Gulf Crisis*)

BANGLADESH

Dec. 3—In response to anti-government protests, President H.M. Ershad offers to resign before the presidential elections scheduled for 1991 and to lift the state of emergency imposed on November 29.
Dec. 4—Ershad resigns after 100,000 anti-government protesters demand that he leave office immediately.
Dec. 5—Parliament selects Chief Justice of the Supreme Court Shahabuddin Ahmed to lead an interim government until elections are held in June, 1991.
Dec. 9—Ershad says he intends to be a candidate in the June elections.
Dec. 12—Ershad is arrested on charges of nepotism, smuggling gold and misappropriation of funds.
Dec. 20—Former Vice President Moudud Ahmed is arrested under the Special Powers Act, which permits arrest without charge.

BRAZIL

(See also *U.S., Foreign Policy*)
Dec. 12—On the opening day of his trial, Darci Alves da Silva confesses that in 1988, he and his father, Darly Alves da Silva, killed Francisco (Chico) Mendes, an environmental advocate and union leader. Earlier they pleaded not guilty to the murder.
Dec. 16—Darly and Darci Alves da Silva are convicted of the 1988 murder of Chico Mendes; they receive 19-year prison terms.
Dec. 17—The government says it will end its moratorium on paying interest on $60 billion in loans from commercial banks; the moratorium began in July, 1989.

BULGARIA

(See also *Vatican*)
Dec. 7—Parliament chooses Dimitar Popov, a politically independent judge, as Prime Minister; he succeeds Andrei Lukanov, who resigned on November 29. Popov helped to organize the free elections held in June.
Dec. 20—Parliament approves a multiparty government, retaining former Communists in 8 of the 18 portfolios.

CAMBODIA

(See also *Intl, Cambodian Peace Plan*)
Dec. 31—Western diplomats report that Chinese weapons are still flowing across Thailand to all opposition groups, including the Khmer Rouge, fighting the Cambodian government; China has made public assurances that it has ceased military aid to the Khmer Rouge rebels.

CHAD

Dec. 1—President Hissen Habré, his Cabinet and thousands of soldiers leave Ndjamena to escape an advancing rebel army led by General Idris Deby.
Dec. 2—Deby and his rebel forces occupy Ndjamena; Deby has promised to establish multiparty democracy in Chad. Habré is reported to have fled to Cameroon.
Dec. 4—Deby declares himself President.

CHILE

(See also *U.S., Foreign Policy*)
Dec. 20—President Patricio Aylwin orders General Augusto Pinochet to explain why the army declared a state of alert yesterday; the army reportedly ordered the troops to their barracks to protest calls for Pinochet's resignation and for investigations of military corruption.

CHINA

(See also *Cambodia*)
Dec. 28—The government replaces Minister of Public Security Wang Fang and Minister of Foreign Economic Relations and Trade Zheng Tuobin; no reasons are given.

COLOMBIA

Dec. 9—Results of the elections held today for a constitutional

convention show that M-19, a former guerrilla group, has won 35 percent of the vote; the right-wing National Salvation Movement has won 26 percent of the vote. The convention is scheduled to meet in early 1991.

Government troops overrun Casa Verde, the headquarters of the Colombian Revolutionary Armed Forces (FARC), killing more than 70 people.

Dec. 18—One day after the government offered incentives to drug traffickers to turn themselves in, Fabio Ochoa Vásquez, a leader of the Medellín drug cartel, surrenders to authorities. President César Gaviria Trujillo has offered to appoint special representatives to protect the traffickers' rights and to refuse extradition under any circumstances.

CONGO

Dec. 10—Concluding a 7-day congress, the ruling Congolese Workers party officially abandons Marxism and adopts a social democratic platform.

CZECHOSLOVAKIA

Dec. 10—President Vaclav Havel asks Parliament for temporary special powers to prevent the disintegration of Czechoslovakia. Leaders in Slovakia have threatened to disregard the authority of the federal government if Parliament does not approve a measure that gives the Czech and Slovak regions greater autonomy.

Dec. 12—Parliament approves and enacts legislation that outlines the authority of the Czech and Slovak regional governments. The legislation gives power over foreign policy, minority nationality questions, defense and the economy to the federal government.

EGYPT

(See also *Intl, Persian Gulf Crisis*)

Dec. 2—Returns from the November 29 elections show that the ruling National Democratic party has won more than three-fourths of the seats in Parliament; independents won a few seats. The 3 main opposition parties boycotted the elections because they believed the elections were undemocratic.

EL SALVADOR

(See also *U.S., Foreign Policy*)

Dec. 29—Guerrillas from the Farabundo Martí National Liberation Front announce that they are ending a 5-week military offensive and will present new proposals to the government to end the 11-year civil war.

FRANCE

(See *Intl, Persian Gulf Crisis*)

GERMANY

Dec. 1—The 1st free all-German parliamentary elections since 1932 are held.

Dec. 2—Results of yesterday's elections show that Chancellor Helmut Kohl and his Christian Democratic party have won 44.1 percent of the vote. Failing to win a majority, Kohl will form a coalition government with the Social Democratic party; this effectively continues the government that led West Germany before reunification.

Dec. 10—The Social Democratic party selects Björn Engholm, the premier of Schleswig-Holstein, as its leader.

Dec. 17—After accusations that he had worked with the secret police in the former East Germany, Lothar de Maizière resigns from all party and government posts. The former Prime Minister of East Germany, de Maizière was named a minister without portfolio by the present German government after reunification. He will remain a member of Parliament.

Dec. 20—Parliament holds its 1st session in the Reichstag in Berlin since reunification.

GUATEMALA

(See also *U.S., Foreign Policy*)

Dec. 2—In Santiago Atitlán, government troops kill 11 people during a military raid on the town.

HAITI

Dec. 17—Father Jean-Baptiste Aristide, a Roman Catholic priest who espouses liberation theology, is elected President with about 60 percent of the vote. The elections take place without military interference.

INDIA

Dec. 6—In Ayodhya, more than 1,000 Hindus rally to ask for the demolition of a Muslim shrine in order to build a Hindu temple in its place; violent demonstrations over this temple led to the fall of Prime Minister V.P. Singh's government in November. Yesterday, Prime Minister Chandra Shekhar agreed to permit peaceful demonstrations.

Dec. 9—At least 93 people are reported to have been killed in 3 days of rioting by Hindus and Muslims in Hyderabad and Aligarh; army troops take control of Hyderabad after widespread violence.

Dec. 27—At the 1st parliamentary session under Prime Minister Shekhar, opposition politicians call for a no-confidence vote.

IRAQ

(See *Intl, GCC, Persian Gulf Crisis*)

ISRAEL

(See also *Intl, Persian Gulf Crisis, UN; Lebanon; U.S., Foreign Policy*)

Dec. 14—In Jaffa, 2 Palestinians are suspected in the killing today of 3 Israelis at an aluminum factory; anti-Arab riots break out in Jaffa and nearby cities.

Dec. 15—In the occupied territories, police arrest hundreds of Palestinians in a search for the suspected assailants in yesterday's attack in Jaffa.

Dec. 16—Defense Minister Moshe Arens says that the government will continue to deport Palestinians from the occupied territories to deter terrorism. Yesterday, Arens ordered the deportation of 4 Gaza Strip Palestinians who are members of Hamas, an Islamic fundamentalist group that has claimed responsibility for the December 14 killings in Jaffa. Israel halted the expulsion of Palestinians 16 months ago.

Dec. 18—In the occupied territories, soldiers wound 18 Palestinians during an anti-Israeli strike.

Dec. 27—The Supreme Court issues a temporary restraining order on the expulsion of 4 Palestinians who were deported from Gaza on December 15.

Dec. 29—In Gaza, Israeli troops clash with Palestinian demonstrators, killing 4 people and injuring 125.

JAPAN

(See *Intl, Persian Gulf Crisis*)

KOREA, NORTH

(See *Korea, South*)

KOREA, SOUTH

(See also *U.S.S.R.*)

Dec. 12—At the opening of a new round of discussions on improving relations in Seoul, representatives of North Korea and South Korea accuse each other of insulting behavior and bad faith in negotiating a "declaration of nonaggression."

North Korean leaders are angered by President Roh Tae Woo's plans to visit the Soviet Union this month.

Dec. 27—President Roh names a new Prime Minister, Ro Jai Bong, and replaces 9 other Cabinet ministers.

Dec. 30—Former President Chun Doo Hwan ends his 2-year self-imposed exile and returns to Seoul. Chun became President in 1980 after a military coup and ruled until Roh won free elections in 1988.

KUWAIT

(See *Intl, GCC, Persian Gulf Crisis*)

LEBANON

Dec. 3—The Lebanese Forces, the largest Christian militia in Beirut, completes its withdrawal from the city.

Dec. 19—Prime Minister Selim al-Hoss submits his resignation.

Dec. 20—President Elias Hrawi asks Education Minister Omar Karami, a Sunni Muslim, to form a government.

Dec. 24—Karami forms a 30-member Cabinet composed of pro-Syrian politicians and militia; Samir Geagea, the leader of the Maronite Christian militia, declines to take his post because he considers the Cabinet "tilted" in favor of Syrian sympathizers.

Dec. 31—An early morning Israeli air raid on Sidon in southern Lebanon kills 12 Palestine Liberation Organization (PLO) guerrillas.

MOROCCO

Dec. 16—Hospital officials report that at least 33 people have been killed in the last 2 days of violent demonstrations in Fez; the riots broke out during a general strike protesting difficult economic conditions.

MYANMAR

Dec. 19—In Manerplaw, government opponents announce the formation of a rival government; they name U Sein Win as Prime Minister and select a Cabinet that consists of members of Parliament who won the free elections in May.

Dec. 20—The military government declares the country's sole opposition party, the National League for Democracy, illegal.

NIGERIA

Dec. 23—At the end of a 3-day conference in Lagos, President Ibrahim Babangida calls on Western nations to pay compensation to Africa for the harm done by the slave trade.

OMAN

(See *Intl, Persian Gulf Crisis*)

PANAMA

Dec. 5—Some 500 U.S. troops in Panama are called in by Panama City police to help quell a rebellion by the former chief of Panama's national police, Colonel Eduardo Herrera Hassan, and 127 followers; the 12-hour rebellion ends with Herrera's capture.

PHILIPPINES

(See *U.S., Foreign Policy*)

POLAND

Dec. 9—Results of the runoff presidential elections held today give Lech Walesa, the leader of the Solidarity trade union, about 74.7 percent of the vote; this is a victory of 3 to 1 over his opponent, Stanislaw Tyminski.

Dec. 12—Walesa resigns as leader of Solidarity.

Dec. 20—Walesa asks Tadeusz Mazowiecki to remain as head of an interim government until elections in spring, 1991; Mazowiecki resigned as Prime Minister in November after he placed 3d in the 1st round presidential elections.

Dec. 21—General Wojciech Jaruzelski steps down as President.

Dec. 22—Walesa is sworn into office.

Dec. 29—Walesa nominates Jan Krzysztof Bielecki, a little-known economist, as Prime Minister.

PORTUGAL

(See *Angola*)

ROMANIA

Dec. 16—In Timisoara, about 10,000 protesters march to ask the government to resign because it has not fulfilled its promises to reform the political system. For a 3d day, more than 10,000 workers stage an anti-government strike; other strikes are expected.

Dec. 17—President Ion Iliescu mediates talks between Prime Minister Petre Roman and the leader of the opposition National Liberal party in order to form a coalition government.

Dec. 21—In Bucharest, 20,000 anti-government demonstrators rally to commemorate the people killed by security forces in the revolution that overthrew President Nicolae Ceausescu one year ago.

Dec. 25—On the anniversary of the execution of Ceausescu, Romania's deposed monarch, King Michael, visits Romania for the 1st time since he was exiled 43 years ago.

Dec. 26—The government expels King Michael, saying he failed to obtain permission for his visit; the opposition denounces the deportation and asks Parliament to invite him to return.

SAUDI ARABIA

(See *Intl, Persian Gulf Crisis*)

SOMALIA

Dec. 28—Rebel groups seeking to overthrow President Mohammed Siad Barre clash with government troops north of Mogadishu, killing several dozen people. On December 26, rebels denouced the government's end of a 17-year ban on opposition parties.

Dec. 31—Fighting between the rebels and the government intensifies in Mogadishu; Siad Barre has reportedly taken refuge in a bunker at the international airport.

SOUTH AFRICA

Dec. 3—Police impose curfews on 4 black townships near Johannesburg after a 3-day outbreak of factional violence that killed at least 71 people.

Dec. 13—Oliver Tambo, the president of the African National Congress (ANC), returns to South Africa after more than 30 years in exile.

Dec. 14—Tambo says that the ANC should reevaluate its support of sanctions as an anti-apartheid weapon because of President F.W. de Klerk's efforts to dismantle apartheid.

Dec. 15—The European Community lifts its ban on investment in South Africa.

Dec. 16—Ending its 1st legal conference in more than 30 years, the ANC says that it will suspend talks with the government if the government does not eliminate obstacles to formal negotiations by April 30.

Dec. 18—In a televised address, de Klerk says the ANC is trying to destabilize the country; he insists the government will not give in to radical pressure or allow anarchy.

SURINAME

Dec. 25—Commander Ivan Graanoost, who overthrew the government of President Ramsewak Shankar in a bloodless coup yesterday, says he will relinquish power to an elected government within 100 days.

SWEDEN

Dec. 12—Parliament votes to give Prime Minister Ingvar Carlsson a mandate to seek Sweden's membership in the European Community.

SYRIA

(See *Intl, Persian Gulf Crisis*)

THAILAND

(See also *Cambodia*)

Dec. 9—King Bhumibol Adulyadej reappoints Chatichai Choonhavan as Prime Minister; Chatichai, who resigned yesterday, has been under pressure by the military to remove ministers from his Cabinet whom the military considers objectionable.

TURKEY

Dec. 13—Soviet Foreign Minister Eduard Shevardnadze meets with Turkish leaders in Ankara to discuss improving Soviet-Turkish relations.

U.S.S.R.

(See also *Intl, EC, Persian Gulf Crisis; Angola; Korea, South; Turkey; U.S., Foreign Policy*)

Dec. 1—President Mikhail Gorbachev orders the establishment of worker vigilante committees to monitor the food industry for theft and speculation; the committees will have the power to shut down enterprises and fire workers who commit "economic crimes."

Dec. 2—Gorbachev replaces Vadim Bakatin, the interior minister and chief of police, with Boris Pugo, a KGB (secret police) major general and Latvian Communist party leader.

Dec. 10—Gorbachev tells Communist party leaders about his proposed union treaty, which replaces the word "socialist" in the country's name with the word "sovereign"; the treaty gives the republics more economic authority but retains central control over other government functions. He urges party leaders to support the treaty in order to stave off economic collapse.

Dec. 13—South Korean President Roh Tae Woo meets with Gorbachev in Moscow; Roh is the 1st South Korean head of state to visit the Soviet Union.

Dec. 17—In an address to the Congress of People's Deputies, Gorbachev asks for a popular referendum in all the republics on his proposed union treaty; he asks the Congress to approve a reorganization of the government that removes some limits on his presidential authority.

Dec. 19—In an open letter circulated at the Congress, several top military officers, including General Mikhail Moiseyev, chief of the armed forces General Staff, urge Gorbachev to institute a state of emergency and rule the 15 Soviet republics directly.

Dec. 20—In a speech before the Congress, Foreign Minister Eduard Shevardnadze warns that the Soviet Union is drifting into dictatorship; he then resigns, saying that he is tired of defending his policies from attacks by hard-line conservatives.

Gorbachev says Shevardnadze's resignation "came as a surprise to me"; he says that the foreign minister's departure at this time "is unforgivable."

Dec. 24—The Congress votes in favor of Gorbachev's plan for Soviet federation but rejects changing the name of the country; the republics must ratify the proposal.

Dec. 25—The Congress approves Gorbachev's request for direct control over the executive branch by making Cabinet ministers subordinate to him and by establishing a vice presidency; the Congress rejects his proposal to create a Supreme State Inspectorate to enforce presidential decrees, fearing that it would lead to dictatorial power.

Dec. 26—Gorbachev nominates as Vice President Gennadi I. Yanayev, a Communist party bureaucrat.

Dec. 27—After rejecting Yanayev on the 1st ballot, the Congress approves him in a 2d round of voting.

The Russian republic votes to reduce its payments to the Soviet Union by more than 90 percent; Russia normally contributes about half the federal budget. Gorbachev says this leaves the country without a budget only 4 days before the start of the fiscal year.

UNITED KINGDOM

Great Britain

(See *Intl, Persian Gulf Crisis; U.S., Foreign Policy*)

Hong Kong

Dec. 17—The Hongkong and Shanghai Banking Corporation, the largest bank in Hong Kong, announces that it is transferring all assets to a holding company offshore; the bank chairman says the transfer is meant to reflect the bank's global reach, not to symbolize the abandonment of Hong Kong.

UNITED STATES

Administration

Dec. 12—President George Bush signs an executive order increasing the pay of all federal employees by 4.9 percent as of January 1; some top officials, including the Vice President and the Chief Justice of the Supreme Court, will receive increases of 29 percent.

Secretary of Education Lauro Cavazos resigns under pressure from the President.

Dec. 17—President Bush selects Lamar Alexander, a former governor of Tennessee, as secretary of education.

White House chief of staff John Sununu, acting on instruction from President Bush, orders the Education Department to revise the decision announced yesterday to prevent colleges receiving federal funds from giving scholarship aid to minority students if the aid is granted solely because of their race or ethnicity.

Dec. 18—Assistant Secretary of Education Michael Williams issues a new regulation; colleges receiving federal funds may not use money from their general operating budgets for scholarships for minority students; private and federal funds designated for this purpose are not affected.

Dec. 26—The Census Bureau reports that according to the 1990 census, the U.S. population totals 249,632,692, a 10.2 percent increase since the 1980 census; states in the south and the west show the largest population gains.

Economy

Dec. 4—The Commerce Department reports that sales of new homes fell 3.5 percent in October, to the lowest level in 8 years.

Dec. 6—The Congressional Budget Office reports that the U.S. budget deficit for fiscal 1990 was $220 billion and is expected to rise to at least $253 billion in fiscal 1991 and to $262 billion in fiscal 1992; these estimates exclude the cost of the Persian Gulf operation.

Dec. 7—The Labor Department reports that the nation's unemployment rate rose to an estimated 5.9 percent in November.

Dec. 11—The chairman of the Federal Deposit Insurance Corporation (FDIC), L. William Seidman, says that the fund will be depleted by $4 billion or more in 1990.

Dec. 14—The Commerce Department reports that the nation's industrial output declined 1.7 percent in November.

Dec. 16—Seidman says that the fund insuring bank deposits may be depleted by $5 billion in 1991; he predicts that between 170 and 200 banks will fail in 1991.

Dec. 17—The Commerce Department issues a revised figure for the nation's gross national product (GNP) for the 3d quarter of 1990; the revision shows an annual growth rate of 1.4 percent; the previous figure was 1.7 percent.

Dec. 18—The Federal Reserve Board lowers its discount rate to 6.5 percent from 7 percent.

The Labor Department reports that its consumer price index rose 0.3 percent in November.

The Commerce Department reports that the nation's foreign trade deficit in October was $11.6 billion, the highest deficit in 2 1/2 years.

Dec. 20—The First National Bank of Chicago, one of the country's largest banks, lowers its prime rate to 9.5 percent.

The Commerce Department reports that consumer spending increased by only 0.1 percent in November.

Dec. 23—The Treasury Department announces that the federal budget deficit totaled $48.1 billion in November.

Dec. 28—The Commerce Department reports that the government's index of leading economic indicators fell 1.2 percent in November, the 5th straight month that the index has declined.

Foreign Policy

(See also *Intl, GATT, Persian Gulf Crisis, UN; Angola; Panama*)

Dec. 2—President Bush leaves for a week-long trip to South America; he will visit Argentina, Brazil, Chile, Uruguay and Venezuela to promote his "Enterprise for the Americas Initiative" program.

Dec. 3—President Bush arrives in Brazil.

Defense Secretary Dick Cheney tells the Senate Armed Services Committee that "there is no guarantee that sanctions will force [Iraqi President Saddam Hussein] out of Kuwait" and that if military action is delayed, the multinational coalition might falter.

Dec. 4—President Bush arrives in Uruguay.

Dec. 5—Assistant Secretary of State for East Asian Affairs Richard Solomon says the U.S. is ready to discuss normalizing relations with Vietnam; talks could begin next month.

Dec. 6—President Bush arrives in Chile.

Dec. 7—The State Department says that the U.S. will rush $48.1 million in military aid to El Salvador to assist the government because of increased guerrilla offensives.

Dec. 8—In Manila, U.S. and Philippine negotiators recess until January their talks on the future of U.S. military bases in the Philippines.

Dec. 10—In Houston, Secretary of State James Baker 3d tells Soviet Foreign Minister Eduard Shevardnadze that the U.S. will give the Soviet Union economic aid.

Dec. 11—In Washington, D.C., President Bush meets with Israeli Prime Minister Yitzhak Shamir to discuss the Persian Gulf crisis.

Dec. 12—President Bush ends a 15-year ban on export credits to the Soviet Union and approves up to $1 billion in federally approved loans to the Soviet Union, which are to be used to buy food and agricultural goods.

Meeting with Foreign Minister Shevardnadze at the White House, the President announces that he will meet President Gorbachev in Moscow February 11-13.

Dec. 21—The State Department announces that it is suspending its $2.8-million military aid program to Guatemala to protest mounting human rights abuses.

Dec. 22—At a news conference at Camp David, President Bush says he is confident that the Soviet Union "will continue its [present] foreign policy path" following the resignation of Soviet Foreign Minister Shevardnadze on December 20.

Labor and Industry

Dec. 3—Continental Airlines files for bankruptcy protection under Chapter 11 but assures its customers that it will be able to continue operations.

Dec. 18—Citicorp announces plans to lay off 4,400 more employees and cut its stock dividend to cope with an increasing number of bad loans; more than 8,000 Citicorp employees have been laid off this year.

Military

Dec. 4—The Navy Department orders the retirement of Vice Admiral Richard Gentz, who has been responsible for all naval aviation acquisitions programs; 2 other Navy officers are to be reassigned. All 3 officers failed to inform the Defense Department about cost overruns and lengthy delays in the development and delivery of the A-12 Avenger, a carrier-based warplane.

Dec. 21—At least 19 U.S. sailors drown after the ferry they were taking to the aircraft carrier *Saratoga* capsizes in the bay near Haifa, Israel; 2 sailors are missing.

Politics

Dec. 13—William J. Bennett, President Bush's choice for chairman of the Republican National Committee, announces that his financial needs make it impossible for him to accept the post.

Science and Space

Dec. 2—The space shuttle *Columbia* successfully flies into orbit on a 10-day mission.

Dec. 10—The 12-member National Space Council recommends that the National Aeronautics and Space Administration (NASA) stop its total reliance on space shuttles, build unmanned rockets and redesign and simplify its proposed space station.

Dec. 11—The space shuttle *Columbia* lands safely, a day ahead of schedule.

Supreme Court

Dec. 3—Overturning a lower court ruling, the Court rules 6 to 3 that a suspect in custody asserting his right to a lawyer may not be questioned further unless his lawyer is present.

URUGUAY

(See *U.S., Foreign Policy*)

VATICAN

Dec. 6—The Vatican restores diplomatic relations with Bulgaria; ties were severed in 1949.

VENEZUELA

(See *U.S., Foreign Policy*)

VIETNAM

(See *U.S., Foreign Policy*)

YUGOSLAVIA

Dec. 10—Results of the parliamentary elections in Serbia held yesterday indicate that the ruling Socialist party has won about 60 percent of the vote for the 250-seat parliament. This was the 1st free election in Serbia since 1938.

Dec. 23—In Slovenian elections, more than 90 percent of the participants vote in favor of independence; the voters pass a plebiscite that calls for gradual control by the republic of the military, foreign policy and economic policy.

ZAMBIA

Dec. 17—Ending 17 years of one-party rule, President Kenneth Kaunda approves laws that legalize opposition political parties. Elections for President and Parliament are to be held before September, 1991. ■

Atlantic Ocean
Pacific Ocean
MEXICO
Mexico City
Havana
CUBA
BELIZE
JAMAICA
Kingston
HAITI
DOMINICAN REP.
Port-au-Prince
Santo Domingo
PUERTO RICO U.S.
VIRGIN IS (U.S & BR)
ANGUILLA (BR)
BARBUDA
ANTIGUA
GUADELOUPE (FR)
DOMINICA
MARTINIQUE (FR)
ST. LUCIA
BARBADOS
GRENADA
TOBAGO and TRINIDAD
Port-of-Spain
Caribbean Sea
GUATEMALA
Guatemala
HONDURAS
Tegucigalpa
San Salvador
EL SALVADOR
NICARAGUA
Managua
COSTA RICA
San José
PANAMA
Panamá
Caracas
VENEZUELA
Georgetown
GUYANA
SURINAME
FR. GUIANA
Bogotá
COLOMBIA
Quito
ECUADOR
PERU
Lima
BRAZIL
La Paz
BOLIVIA
Brasília
Rio de Janeiro
PARAGUAY
Asunción
CHILE
Santiago
ARGENTINA
Buenos Aires
URUGUAY
Montevideo
MILES
0 200 400 600 800 1000 2000

Current History

SPECIAL DISCOUNTS FOR BULK PURCHASE

Save One Third!

Current History is now offering special discounts for orders of 10 or more copies of the same issue, and for 10 or more subscriptions mailed to the same address.

Academic Year 1990-1991

- ☐ China, 1990 (9/90)
- ☐ The Soviet Union, 1990 (10/90)
- ☐ Europe: West (11/90)
- ☐ Europe: East (12/90)
- ☐ The Middle East, 1991 (1/91)
- ☐ South America (2/91)
- ☐ Mexico and Central America (3/91)
- ☐ Japan (4/91)
- ☐ Africa, 1991 (5/91)

Still Available

- ☐ Africa South of the Sahara (5/90)
- ☐ North Africa (4/90)
- ☐ Southeast Asia (3/90)
- ☐ The Middle East (2/90)
- ☐ Latin America (1/90)
- ☐ South Asia (12/89)
- ☐ East Europe (11/89)
- ☐ The Soviet Union, 1989 (10/89)
- ☐ China, 1989 (9/89)
- ☐ Africa, 1989 (5/89)
- ☐ East Asia (4/89)
- ☐ South America, 1989 (3/89)
- ☐ The Middle East, 1989 (2/89)
- ☐ Toward the 21st Century—Special 75th Anniversary Issue (1/89)
- ☐ Central America, 1988 (12/88)
- ☐ China, 1988 (9/88)
- ☐ Africa, 1988 (5/88)
- ☐ Japan (4/88)
- ☐ Canada (3/88)

Quantity Discount Price: 10 or more copies of the same issue, $2.75 per copy—savings of 35 percent (single copy price, $4.25. Copies more than two years old: $5.25 per copy.
Quantity Subscription Price: 10 or more subscriptions mailed to the same address: $24.25 per 1-year subscription.
One-year subscription: $29.00 **Two-year subscription:** $57.00 **Three-year subscription:** $85.00

CURRENT HISTORY BINDER

A sturdy, hardcover binder at a reasonable cost will protect *Current History* for permanent reference. The easy-to-use binder holds a year of *Current History* securely in place over flexible steel rods.

CURRENT HISTORY ● 4225 Main Street ● Philadelphia, Pa. 19127

- ☐ 1 year US$29.00
- ☐ 2 years US$57.00
- ☐ 3 years US$85.00
- ☐ Please send me the issues I have indicated in the quantities I have marked.

- ☐ Current History Binders at US$8.95

Name . . . .

Address . . . .

City . . . .

State . . . .

Zip Code . . . .

☐ Check enclosed. ☐ Bill me. Add US$4.50 per year for Canada; US$4.50 per year for foreign.
All these offers are good only on new orders mailed directly to the publisher.
Specific issue price and bulk subscription prices are based on a single mailing address for all issues ordered.

D17